THE Freeman

IDEAS ON LIBERTY

NOVEMBER 1963

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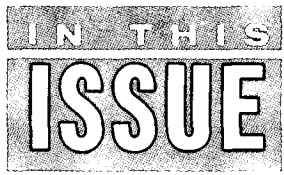

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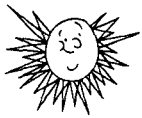
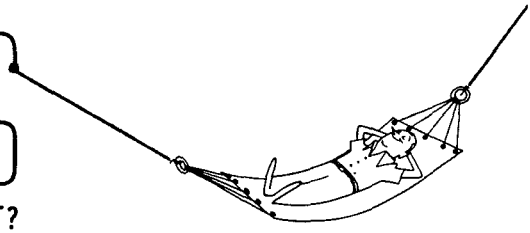


WHAT IS EMPLOYMENT?



OSCAR W. COOLEY

"EMPLOYMENT" is not a simple term denoting the mere holding of a job for which a wage is paid, or the operating of one's own business. Rather, it signifies the state of anyone who is doing what, under the circumstances, he most wants to do. Such a person is fully "employed." A community or nation has "full employment" when all of its people are fully employed.

The ways in which people may be employed are legion. One may be writing a book, another writing a letter. One may be teaching a class, or speaking from the hustings. One may be tending a lathe, a baby, or a fish line. One may be driving an automobile, baking cookies, dancing the twist, enduring an appendectomy, or lying on the ground gazing up into the blue. All are employment, all are done to satisfy, and the satisfactions received, whether measurable in money or not, are income to the recipient and a part of the "national income."

Shister wrote, concerning a worker who prefers part-time work in his home locality to migrating elsewhere for full-time work:

> . . . . if the attachments in the area mean so much to the worker that he would rather stay there than move to a full-time job it follows that these attachments have a real value to him, though they have no market value. In a *free society*, they are every bit as much a part of the "national income" as is a suit of clothes, an automobile, or a yacht.[1]

And yet, those who compute

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[1] J. Shister, *Economics of the Labor Market* (Philadelphia: Lippincott, 1956), page 376.

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the national income ignore psychic reward, dismissing it for the reason that it is immeasurable. They are content to reckon the monetary income and cite it as the total of satisfactions received, when plainly it is not. Because a quantity cannot be measured does not mean that it does not exist. Certainly, one cannot ignore such a quantity as though it did not move people to act.

Income, since it consists of satisfactions received, or the wherewithal to exchange for such satisfactions, tends to satisfy the recipient. It removes, in whole or in part, his uneasiness. He now consumes or enjoys the income, and then tends to return to the same source for more. Thus, if his income is gained from work, he resumes the work; if it is gained from leisure, he continues the leisure. Only when in his mind an image forms of a way to earn more or higher quality income does he change his ways. Human action, then, is motivated by the search for satisfactions, that is, for income, material or psychic.

In one respect, psychic income is superior to monetary income. Money must be converted into consumable goods or services and the latter consumed before actual satisfactions are realized, but psychic income requires no conversion or consumption since it consists of the final satisfactions themselves. It is immediate income while money income is mediate. Thus, work yields wages, which must be exchanged for food before one can enjoy the satisfaction of eating and of renewing his strength, but leisure yields income in the form of rest, recreation, social activity, and so forth, which is the satisfaction itself, directly and immediately experienced.

On the other hand, monetary income has the superiority of being exchangeable for any satisfactions which are available for purchase. Psychic income is not exchangeable. Hence, if one is to enjoy those satisfactions which can only be purchased, some money income is necessary.

Examples of Psychic Income

As a rule people are not motivated by psychic income or by material income alone but by a combination of the two. Rarely is one present without the other. Sometimes one will be a negative quantity, but their algebraic sum will be positive. To give examples:

Here is a man who farms not merely for the material rewards he gains from farming, which he is aware are less than he could earn in business, but because he enjoys living outdoors, tilling the soil, and being his own boss. Without these psychic rewards, he

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would desert the farm for business. His life-work has been determined by psychic income.

Here is a man who loves science and the laboratory and the search for knowledge; he is a research physicist though he knows that he might earn more money as an engineer. Psychic, not material, income is the determinant of his vocation.

One may imagine a contractor who builds houses in Florida, though he once made and could still make more money building skyscrapers in Manhattan.

A certain man is in politics because he believes he can thereby serve his community, or because he enjoys the power that political office confers.

This woman has deliberately quit her salaried job in an office to stay at home and keep house and bring up children.

Here is a man who quit a government job out of boredom and took a job in industry because it was more exciting.

And here is one who is living on unemployment compensation for the time being because he is tired of the time-clock and the foreman and likes to play cards, or because the readjustment he would have to make in order to get a job would be too unpleasant.

Examples of lives directed by psychic factors are all about us. Indeed, everyone, if he will examine his own motives, will admit that many, perhaps most, of his actions are prompted, fully or in part, by the prospect of direct satisfactions, either physical, intellectual, or spiritual.

Everyone Wants More

It may be taken for granted that all men want greater rewards, either material or psychic or both, than they are receiving. In some the desire for increased reward is much keener than in others; those in whom it is keen are on the lookout for more lucrative employment.

Some complain that their rewards are altogether "too small" and insist that they should have more. If they are able to persuade the community of this, they may be given an additional material reward or they may be offered the chance to work and earn an additional amount.

Those whose rewards are considered by the community to be "too small" and who aver that they want to earn more are classed as "unemployed" and are looked upon as a social problem. The "problem" is to increase their rewards. It is assumed (wholly without proof) that they cannot do this for themselves and hence that society must do it for them.

However, the "unemployed" are

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not differently situated from others. They are receiving some rewards and they want more; the same can be said of us all. If the "unemployed" are helpless, so is everyone.

Who Is More Deserving?

Somehow it is assumed that people in certain circumstances are more deserving of increased rewards than are others. It cannot be because these people, the "unemployed," now receive less total rewards than others receive for, psychic rewards being immeasurable, it is impossible to calculate and know anyone's total reward.

Granted, the "unemployed" are usually receiving less material rewards than the "employed" receive. However, an "unemployed" person may easily be receiving vastly more psychic reward, and hence more total reward, than an "employed" person. So, one wonders why the "unemployed" person's neighbors tax themselves to give him money to increase his total reward. They likely may be giving "to him who hath."

No one but the person himself knows or can know what the rewards, that is, the total income, of his way of life are. Therefore, the only criterion the community has for determining whether his rewards are "sufficient" are his actions. If he bestirs himself to increase his rewards, evidently his rewards are "insufficient" to meet his wants. Dissatisfied with his present way of life, he changes it.

Since only he knows what his present rewards are, only he can know whether they compare favorably with what he might receive in a different situation. Therefore, only he can decide whether he should make a change.

There is no call for any action by the community; any such action, in fact, will inevitably collide with his own action, since a body cannot move in two directions at one time. For example, a grant of "relief" by the community may meet head-on his intent to go to a neighboring city to look for a job – and may overcome it. The relief payment plus the psychic reward attached to remaining idle in his home environment may exceed the wage of working in the neighboring city plus any psychic reward (or cost, that is, negative reward) connected with the new environment and experience.

In such case, the action of the community cannot be said to have "solved" a "social problem." In the first place, there was no "social problem," and in the second, the community's action is merely alternative to his own, planned, autonomous action. It is different but not "better"; in fact, it is socially "worse," because it has imposed a

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cost on the community which the person's own contemplated action would not have imposed.

The Meaning of "Full Employment"

Those who advocate "full employment" are really advocating not "full" employment, which already prevails, but directed employment. They claim to desire more people to be employed, but they really desire people to be employed *in different ways* than prevail. The "unemployed" and the "underemployed" they want to see "fully" employed. But by what right do they state that some are not doing as much as they ought to do? And how do they justify using the power of government to hire people to alter their employment?[2]

The error arises from the assumption that some of the nation's human resources are not being used and hence can be put to use without taking them away from any other use – that Paul can be paid without robbing Peter. But, as we have seen, all people *are* employed, at some activity, if it be nothing more exciting than rocking on the front porch, and all are receiving rewards, material and immaterial, in unknown amounts. Who is to say that they are not now "fully" employed, or that they will be more "fully" employed after some have been moved by external direction into different employment?

The authorities admit that in recent years employers have actively sought workers while in the same areas an ever-increasing number of workers were reported without jobs. There is abundant evidence that jobless people are being dissuaded, by public aids, from taking available jobs. It is manifestly untrue to say that these people can be hired, by massive injections of new money into the spending stream, without cost to the economy. As soon as such a person is hired – for example, on a public project launched to eliminate his "unemployment" – he will cease to receive and enjoy the psychic satisfactions he was receiving as a jobless person, and the national income will be reduced by the amount of these satisfactions. The value of the income sacrificed will be equal to the least amount he would go to work for on the public project, minus the amount of cash aid he had been receiving.

To put it another way, while out of a job and on unemployment compensation, a person receives

[2] When the federal government finances public works spending with newly manufactured, costless "money," as it frequently does, the power of government is being used to commandeer resources, just as truly as it is when men are drafted into the armed forces.

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his livelihood plus the satisfactions of idleness. When he is put to work on a public works project, he receives only his livelihood. Yet the "full employment" school of thought holds that there has been no loss.

The aim of the "full employment" school is to provide relatively high-wage jobs and attract workers into them. Private employers, being limited by the marginal productivity of the workers, cannot provide such jobs, but the government can. The "full employment" advocates would insure against workers taking low-wage jobs by providing generous unemployment compensation and public assistance, which compete successfully with low-wage jobs for the workers' favor. The higher the levels of these aids, the more people who appear to claim them, and hence the longer the rolls of the "unemployed." Thus, "less than full employment" becomes a chronic condition, making appropriate, according to the Keynesian prescription, ever greater injections of fiat money. In short, their solution to "unemployment" is to raise wages – which in turn results in more "unemployment."

This vicious circle can only be broken by recognition that "less than full employment" is a fiction. No free person is "unemployed." Everyone is employed at the activity of his choice. Some are more productive of measurable wealth than others, but only in a totalitarian state could any pretense be made of directing everyone into that employment where he produced the most measurable wealth. In a free society, people spend much time and energy in producing immeasurable, psychic wealth. They also switch quickly from producing material wealth to producing psychic wealth, and vice versa.

No Common Measure of Value

Any theory of employment which ignores psychic wages and the employments which yield such wages is incomplete and inadequate. Any attempt to quantify all wages and express the quantities in a common measure of value is doomed to failure. No one knows or can know what another's income totals. Hence, no one can know what the total "national income" is, or whether it is greater or less this year than last. If we consider an increase of national income to be a "measure of economic growth," no one can make other than the wildest estimate of the rate of economic growth.

Since World War II, government spending has been liberally used to direct people into wage employment, and undoubtedly

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some have been so directed. Whether this has caused the "national income" to be higher than it would have been is impossible to say. However, it is a matter of common observation that not all have been induced to take wage jobs; the lengthening relief rolls and the continuing queues of unemployment compensation claimants testify to that.

More and more we hear of "chronic unemployment." Some call it "permanent unemployment." It is really not unemployment at all but alternative employment. In many cases public agencies are playing the role of "employers"; in others the people are "self-employed," or subsisting on savings or other resources of their own.

To hold that whenever there is "less than full employment" people can be directed into wage jobs without being lured away from other satisfying activity and thus without detracting from production already in progress is to imply that all jobless people are wasting their time and would give up nothing if they were to take jobs. To reveal the weakness of this implication, we need only ask: what of those who have quit work voluntarily? What of the retired, the professors on sabbatical leave, and so on? In fact, a state of chosen leisure may well be the richest employment imaginable. Literally "full employment" at wage and salary jobs would be a most wasteful use of manpower. To use government power to achieve "full employment" is just as antisocial as it is uneconomic.

Inflationary Spending

Economists widely hold that it is evil – the term is "inflationary" – for government to launch a spend-to-create-employment program when "full employment" already prevails, but to do this when there is "less than full employment" is quite all right, in fact, is the appropriate remedy. If, as the writer holds, there is no essential difference between "full employment" and "less than full employment" – if in a true sense the former always prevails in a free society, it follows that government spending programs are always inflationary.

The essence of such a spending program is that the government spends costless, or "legally counterfeit," money to hire resources. The source, and the only source, of the value of such "money" is the value of other money in circulation. It is a diluting operation, for all the world like pouring a bucket of water into a can of milk. In reality, the government claims and takes the ser-

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vices of resources, including workers, without giving up wealth for them. A fully employed economy, it is held, cannot afford to give up these services but a "less than fully employed" economy can.

If, however, as held here, people are "unemployed" because they prefer to be, that is, because the satisfactions of "unemployment" add up to a more attractive package than do the satisfactions of "employment," then manifestly they will not benefit by being moved into employment, which means being required to give up the greater satisfactions for the lesser. This is really the meaning of "inflation"; it is a process by which people are lured into comparatively unproductive employment, the entire economy is impoverished, and all are condemned to receive lesser satisfactions. Thus, regardless of what the statisticians say is the "rate of unemployment," government spending is never the remedy.

Conclusions

What bearing has this theory of employment on the thesis that government "aids" are subsidizing idleness and reducing productivity? Just this. Through aids, we are enabling people to consume without producing. The subsidized persons are, to the extent of the subsidy, escaping the disutility of labor, which is imposed on man by nature. They are becoming drones living off the workers. And they are assuming this favored status on the ground that through forces beyond their control they have been placed in the disadvantageous position of being "unemployed" and thus have a valid claim upon society.

In point of fact, they are not "unemployed," nor are they victims of forces beyond their control. They are free persons choosing from various alternatives how they shall spend their days, just as all persons are doing. They are free to produce little, if they wish, but it follows that they should consume proportionately, in which case they will be moved most strongly to become more productive.

Society cannot afford to give them consumption goods in excess of what they produce, since this merely prolongs their unproductive state, nor is there any reason, economic or other, for so doing. On the contrary, reason dictates that the "aids" be cut off, both to save the product for those who have produced it and to stimulate the unproductive to become more productive.

Perhaps the most serious aid-induced waste is the erosion of the spirit of enterprise, which in-

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evitably results from putting people on a dole, since it reduces the necessity to venture and to exert oneself. The American worker's ready acceptance of the fatalistic notion that he "cannot find a job" should give us pause. Only as the worker succeeds in selling his labor and keeping himself continuously at work will the economy produce to the utmost.

Government "aid" of all kinds, whether it be compensation to the "unemployed," relief to the "needy," price supports to farmers, minimum wages to workers, subsidies to shipbuilders, easy credit to "small" business, urban renewal grants, defense contracts to "depressed areas," or "aid to education," should be discontinued, if not immediately, then gradually. Government should withdraw from the "aid" business, at the same time serving notice on the people that they must depend upon their own initiative. Not only the federal but the state and local governments should demobilize their "aid" forces.

Such action, we predict, would be followed by such a surge of productive activity as this country has never seen. As the easy, lackadaisical, subsidized life came to an end, men would bestir themselves, throw off their aid-induced lethargy, shed the cynical "everybody's-getting-his-why-shouldn't-I-get-mine" attitude, and go to work with vigor and daring.

The "unemployed," having no government crutch to lean upon, would break down the "union wage" tradition and find jobs at market wages. As they went to work, production would increase, new projects not now feasible because of cost would spring into being and enterprise would expand. The demand for capital would increase. Simultaneously, knowing that they now must depend on their own resources, people would save more, providing the new investment funds. Opportunities for entrepreneurs would multiply. So would opportunities for workers.

We must get used to the idea that the job is not static – not a given. The technology of electronics, computers, and so forth accelerates the displacement of workers. That is to say, entrepreneurs are enjoying a period of extraordinary success in devising less costly ways of production. They are not "creating jobs," nor can they be expected to do so; their function is to create wealth. The worker must fend for himself. This makes it all the more essential that we not demobilize the job-seeker, but that we encourage the job-finding, job-creating efforts of every worker. ◈

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wages and productivity

W. M. CURTISS

IN DISCUSSIONS of wage rates, whether for individuals, firms, or for the entire economy, we hear a lot about the increasing productivity of the worker, and that wages must rise to reflect such increases. A large steel company recently has negotiated a contract with its workers which says, in effect, "If your productivity increases, your wages will keep pace." Is this the way wages are or should be determined in an open society? Just what are the implications, if all wages were determined by this method?

How come that a boy today gets $3.00 or $4.00 for mowing the same lawn you did as a lad for 25 or 50 cents? Has the productivity of boys increased that much? True, a boy with a power mower can do the job faster; but when he's finished, the total accomplishment is no greater than when done a generation ago. In fact, the job may have been done better then, if you consider the trimming which boys with power mowers tend to neglect.

Or, take a haircut – $2.00 now compared to the quarter you paid for your first one! Electric clippers, to be sure; but again, you are interested in the finished job rather than the barber's speed.

So it goes, for one service after

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another – a cleaning woman, window washing and hanging screens, car waxing, house painting –whatever the service, you find it costs a lot more to get the job done than when you were a boy.

When you think about it, you realize that inflation is a factor – a dollar doesn't go as far as it once did. That might account for perhaps a doubling of the price, but what about the rest of the increase?

Supply and Demand

In a free market, wages are determined by competitive forces of supply and demand. A manufacturer, after very careful planning, concludes that he can make and sell so many of a particular item at a given price. He must assemble his resources, including his plant, his equipment, his managerial talent, and workers, and hope to recover the cost of these things from the price buyers will pay for the finished product.

So, the manufacturer goes into the labor market to hire men to work for him. If his offered wage isn't high enough to get the workers he needs, then he must either give up the project or figure how to recombine his resources in such a way that he can pay higher wages and still come out ahead. He may do this by simplifying his manufacturing processes, by introducing more or better machinery, or by innovations of some sort.

The worker, on the other hand, will look after his interest, too, and will consider moving to a new job if it seems more attractive to him for reasons of higher pay, better working conditions, shorter days, more vacation, or whatever.

But, suppose some manufacturer comes along with an item he can make and sell very profitably. It may be because of patents he holds, or special skills or processes that only he knows about. He may be able to afford to pay wages half again as high as the going wage in the area and still come out ahead. Shouldn't he do this?

Various Alternatives

In a free market, he is at liberty to pay the higher wage if he wishes. But if he has had some experience in manufacturing, he knows that competition is behind every tree and someone will figure out a way to put a competing product on the market that will undersell his, with his high labor costs, in which case he may find himself without his expected buyers. So, he probably will decide he should pay the going wage for his workers, or just enough more to fill his needs, and use most of his technological advantages to

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reduce prices to the buyer and build his market. If, in the early stages, he is able to gain a handsome profit for himself and his stockholders, he will have a cushion with which to meet the competition certain to come.

All this has nothing to do with a particular businessman offering his workers production incentives. He may believe that his workers will produce more for him if he gives them every Wednesday afternoon off, or he may give them a share in the profits of the firm, or he may pay them on a piece-work basis. That must be each employer's decision; but most will offer a base wage rate not greatly different from the going wage in the area.

Competition the Key

But, what has all this to do with the cost of getting my lawn mowed, or a haircut, or hiring a woman to clean my house? Why have wages in the services increased over the years about as much as those in highly automated industries? In one instance, efficiency of doing the job may not have increased at all, while in the other, it may have increased tenfold.

Competition is the answer. If you want a man to cut your hair, you must pay enough to keep him from going to work in a factory or at some other occupation. As a result, we have what may be referred to as a wage level for the entire economy. This is a somewhat mythical figure, not too meaningful because of the variability of individual skills. For example, consumers will pay a great deal more for the services of a skilled brain surgeon than for the services of a messenger.

The calculation of a wage level for a country is a tremendously complicated procedure and not too satisfactory at best. Nevertheless, it is a useful if not precise tool in comparing the economy of one country with another. We know, for example, that the general level of wages is much higher in the United States than in India, which leads to certain conclusions about how wages may be improved in any economy.

With a free market, in an advanced economy, most of the returns from production go to the workers — roughly 85 to 90 per cent. Competition *forces* this. If workers are supplied with good tools and equipment, they are more productive and their wage level is higher than it would be otherwise. This is a generalization regarding all workers. The general wage level is higher in a country where there is a relatively high investment in tools and equipment per worker. It is just that simple! In the United States,

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the investment per worker in tools may be $20,000, and it is not unheard of to find a particular business with an investment of $100,000 in tools and equipment per worker.

The road, then, to a higher wage level is through savings and investment in the tools of production. There is no other.

A high investment in tools and equipment benefits the barber, the cleaning woman, and all service employees, even though the investment is not directly for their work. Competition sees to this.

A Negative Bonus

However enlightened it may appear on the surface, the wages of an individual worker or for a group of workers cannot be tied to the productivity of their job or to the profitability of a particular firm. If this were the case, a highly skilled worker might find himself working for a negative "bonus" in a firm which, for some reason, happens to be operating at a loss.

The same may be said for tying wages to a cost-of-living index. A fair wage, both to the worker and the employer, can only be established by bargaining between the two interested parties – the worker taking what appears to him to be the best he can get and the employer, all things considered, getting the best deal for himself.

The lesson here is that while productivity of workers is highly important when considering a general wage level, productivity does not determine what the wage rate ought to be for any given firm or industry within the economy. The effect of general productivity on wages is automatic in a free market with competition. And all workers stand to gain when tools and capital are made available to some of them. ◈

NOTE: The economics of wages, while relatively simple in general terms, is complex in detail. The above is an oversimplified statement of one phase of the wage problem. The student who wishes to go further into a study of wages is referred to *Why Wages Rise*, by F. A. Harper: The Foundation for Economic Education, 124 pages, indexed. $1.50 paper, $2.50 cloth.

• THIS ARTICLE by Dr. Curtiss will be number 44 in the Foundation's series of suggested answers to *Clichés of Socialism*. Mr. Read's article on page 46 is number 43. The first 32 of these answers are bound in a 124-page paperback, subsequent numbers available only as single sheets at 2 cents each. For the full set of 44, including the book, send $1.00 to The Foundation for Economic Education, Irvington-on-Hudson, New York.

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MERCANTILISM

A LESSON FOR OUR TIMES?

MURRAY N. ROTHBARD

MERCANTILISM has had a "good press" in recent decades, in contrast to nineteenth century opinion. In the days of Adam Smith and the classical economists, mercantilism was properly regarded as a blend of economic fallacy and state creation of special privilege. But in our century, the general view of mercantilism has changed drastically: Keynesians hail mercantilists as prefiguring their own economic insights; Marxists, constitutionally unable to distinguish between free enterprise and special privilege, hail mercantilism as a "progressive" step in the historical development of capitalism; socialists and interventionists salute mercantilism as anticipating modern state-building and central planning.

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Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held that exports should be encouraged by the government and imports discouraged. Economically, this seems to be a tissue of fallacy; for what is the point of exports if not to purchase imports, and what is the point of piling up monetary bullion if the bullion is not used to purchase goods?

But mercantilism cannot be viewed satisfactorily as merely an exercise in economic theory. The mercantilist writers, indeed, did not consider themselves economic theorists, but practical men of affairs who argued and pamphle-

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teered for specific economic policies, generally for policies which would subsidize activities or companies in which those writers were interested. Thus, a policy of favoring exports and penalizing imports had two important practical effects: it subsidized merchants and manufacturers engaged in the export trade, and it threw up a wall of privilege around inefficient manufacturers who formerly had to compete with foreign rivals. At the same time, the network of regulation and its enforcement built up the state bureaucracy as well as national and imperial power.

The famous English Navigation Acts, which played a leading role in provoking the American Revolution, are an excellent example of the structure and purpose of mercantilist regulation. The network of restriction greatly penalized Dutch and other European shippers, as well as American shipping and manufacturing, for the benefit of English merchants and manufacturers, whose competition was either outlawed or severely taxed and crippled. The use of the state to cripple or prohibit one's competition is, in effect, the grant by the state of monopolistic privilege; and such was the effect for Englishmen engaged in the colonial trade.

A further consequence was the increase of tax revenue to build up the power and wealth of the English government, as well as the multiplying of the royal bureaucracy needed to administer and enforce the regulations and tax decrees. Thus, the English government, and certain English merchants and manufacturers, benefited from these mercantilist laws, while the losers included foreign merchants, American merchants and manufacturers, and, above all, the *consumers* of all lands, including England itself. The consumers lost, not only because of the specific distortions and restrictions on production of the various decrees, but also from the hampering of the international division of labor imposed by all the regulations.

Adam Smith's Refutation

Mercantilism, then, was not simply an embodiment of theoretical fallacies; for the laws were *only* fallacious if we look at them from the point of view of the consumer, or of each individual in society. They are not fallacious if we realize that their aim was to confer special privilege and subsidy on favored groups; since subsidy and privilege can only be conferred by government *at the expense* of the remainder of its citizens, the fact that the bulk of the consumers

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lost in the process should occasion little surprise.[1]

Contrary to general opinion, the classical economists were not content merely to refute the fallacious economics of such mercantilist theories as bullionism or protectionism; they also were perfectly aware of the drive for special privilege that propelled the "mercantile system." Thus, Adam Smith pointed to the fact that linen yarn could be imported into England duty free, whereas heavy import duties were levied on finished woven linen. The reason, as seen by Smith, was that the numerous English yarn-spinners did not constitute a strong pressure-group, whereas the master-weavers were able to pressure the government to impose high duties on their product, while making sure that their raw material could be bought at as low a price as possible. He concluded that the

> motive of all these regulations, is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbors, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals . . .
>
> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer . . . But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.
>
> In the restraints upon the importation of all foreign commodities which can come into competition with those of our own growth, or manufacture, the interest of the home-consumer is evidently sacrificed to that of the producer. It is altogether for the benefit of the latter, that the former is obliged to pay that enhancement of price which this monoply almost always occasions.
>
> It is altogether for the benefit of the producer that bounties are granted upon the exportation of some of his productions. The home-consumer is obliged to pay, first, the tax which is necessary for paying the

[1] "The laws and proclamations...were the product of conflicting interests of varying degrees of respectability. Each group, economic, social, or religious, pressed constantly for legislation in conformity with its special interest. The fiscal needs of the crown were always an important and generally a determining influence on the course of trade legislation. Diplomatic considerations also played their part in influencing legislation, as did the desire of the crown to award special privileges, *con amore*, to its favorites, or to sell them, or to be bribed into giving them, to the highest bidders...The mercantilist literature, on the other hand, consisted in the main of writings by or on behalf of 'merchants' or businessmen . . . tracts which were partly or wholly, frankly or disguisedly, special pleas for special economic interests. Freedom for themselves, restrictions for others, such was the essence of the usual program of legislation of the mercantilist tracts of merchant authorship." Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), pp. 58-59.

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bounty, and secondly, the still greater tax which necessarily arises from enhancement of the price of the commodity in the home market.[2]

Before Keynes

Mercantilism was not only a policy of intricate government regulations; it was also a pre-Keynesian policy of inflation, of lowering interest rates artificially, and of increasing "effective demand" by heavy government spending and sponsorship of measures to increase the quantity of money. Like the Keynesians, the mercantilists thundered against "hoarding," and urged the rapid circulation of money throughout the economy; furthermore, they habitually pointed to an alleged "scarcity of money" as the cause of depressed trade or unemployment.[3] Thus, in a prefiguration of the Keynesian "multiplier," William Potter, one of the first advocates of paper money in the Western world (1650), wrote:

> The greater quantity... of money... the more commodity they sell, that is, the greater is their trade. For whatsoever is taken amongst men... though it were ten times more than now it is, yet if it be one way or other laid out by each man, as fast as he receives it...it doth occasion a quickness in the revolution of commodity from hand to hand...much more than proportional to such increase of money....[4]

And the German mercantilist F. W. von Schrötter wrote of the importance of money changing hands, for one person's spending is another's income; as money "pass[es] from one hand to another . . . the more useful it is to the country, for . . . the sustenance of so many people is multiplied," and employment increased. Thrift, according to von Schrötter, causes unemployment, since saving withdraws money from circulation. And John Cary wrote that if everyone spent more, everyone would obtain larger incomes, and "might then live more plentifully."[5]

Historians have had an unfortunate tendency to depict the mercantilists as inflationists and *therefore* as champions of the poor debtors, while the classical economists have been considered hard-hearted apologists for the *status quo* and the established order. The truth was almost pre-

[2] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 625.

[3] See the laudatory "Note on Mercantilism" in Chapter 23 of John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936).

[4] Quoted in Viner, *op. cit.*, p. 38.

[5] Quoted in Eli F. Heckscher, *Mercantilism* (2nd Edition, New York: Macmillan Co., 1955), II, 208-09. Also see Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism* (New York: Kelley and Millman, 1957), p. 41.

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cisely the reverse. In the first place, inflation did not benefit the poor; wages habitually lagged behind the rise in prices during inflations, especially behind agricultural prices. Furthermore, the "debtors" were generally not the poor but large merchants and quasi-feudal landlords, and it was the landlords who benefited triply from inflation: from the habitually steep increases in food prices, from the lower interest rates and the lower purchasing-power of money in their role as debtors, and from the particularly large increases in land values caused by the fall in interest rates. In fact, the English government and Parliament was heavily landlord-dominated, and it is no coincidence that one of the main arguments of the mercantilist writers for inflation was that it would greatly raise the value of land.

Exploitation of Workers

Far from being true friends of laborers, the mercantilists were frankly interested in exploiting their labor to the utmost; full employment was urged as a means of maximizing such exploitation. Thus, the mercantilist William Petyt wrote frankly of labor as "capital material . . . raw and undigested . . . committed into the hands of supreme authority, in whose prudence and disposition it is to improve, manage, and fashion it to more or less advantage."[6] Professor Furniss comments that "it is characteristic of these writers that they should be so readily disposed to trust in the wisdom of the civil power to 'improve, manage, and fashion' the economic 'raw material' of the nation. Bred of this confidence in statecraft, proposals were multiplied for exploiting the labor of the people as the chief source of national wealth, urging upon the rulers of the nation divers schemes for directing and creating employment . . . ."[7] The mercantilist's attitude toward labor and full employment is also indicated by their dislike of holidays, by which the "nation" was deprived of certain amounts of labor; the desire of the individual worker for leisure was never considered worthy of note.

Compulsory Employment

The mercantilist writers realized frankly that corollary to a guarantee of full employment is coerced labor for those who don't wish to work or to work in the employment desired by the guarantors. One writer summed up the typical view: "It is absolutely necessary that employment should be provided for persons of every age that are able and willing to work,

[6] Quoted in Furniss *op. cit.*, p. 41.
[7] *Ibid*

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and the idle and refractory should be sent to the house of correction, there to be detained and constantly kept to labor." Henry Fielding wrote that "the constitution of a society in this country having a claim on all its members, has a right to insist on the labor of the poor as the only service they can render." And George Berkeley asked rhetorically "whether temporary servitude would not be the best cure for idleness and beggary? . . . Whether sturdy beggars may not be seized and made slaves to the public for a certain term of years?"[8] William Temple proposed a scheme to send the children of laborers, from the age of four on, to public workhouses, where they would be kept "fully employed" for at least twelve hours a day," for by these means we hope that the rising generation will be habituated to constant employment . . . ." And another writer expressed his amazement that parents tended to balk at these programs:

> Parents . . . from whom to take for time the idle, mischievous, least useful and most burdensome part of their family to bring them up without any care or expense to themselves in habits of industry and decency is a very great relief; are very much adverse to sending their children . . . from what cause, it is difficult to tell.[9]

[8] See Furniss, *op. cit.*, pp. 79-84.

[9] *Ibid.*, p. 115.

Perhaps the most misleading legend about the classical economists is that they were apologists for the *status quo;* on the contrary, they were "radical" libertarian opponents of the established Tory mercantilist order of big government, restrictionism, and special privilege. Thus, Professor Fetter writes that during the first half of the nineteenth century, the

> *Quarterly Review* and *Blackwood's Edinburgh Magazine*, staunch supporters of the established order, and opponents of change in virtually all fields, had no sympathy with political economy or with laissez-faire, and were constantly urging maintenance of tariffs, expenditures by government, and suspension of the gold standard in order to stimulate demand and increase employment. On the other hand the *Westminster*'s [journal of the classical liberals] support of the gold standard and free trade, and its opposition to any attempt to stimulate the economy by positive government action, came not from believers in authority or from defenders of the dominant social force behind authority, but from the most articulate intellectual radicals of the time and the severest critics of the established order.[10]

Southey Favors Nationalization

In contrast, let us consider the *Quarterly Review,* a high Tory journal which always "assumed that the unreformed Parliament, the dominance of a landed aristoc-

[10] Frank W. Fetter, "Economic Articles in the *Westminster Review* and their Authors, 1824-51," *Journal of Political Economy* (Dec. 1962), p. 572.

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racy . . . the supremacy of the established church, discrimination of some sort against Dissenter, Catholic, and Jew, and the keeping of the lower classes in their place were the foundations of a stable society." Their leading writer on economic problems, the poet Robert Southey, repeatedly urged government expenditure as a stimulant to economic activity, and attacked England's resumption of specie payments (return to the gold standard) after the Napoleonic Wars. Indeed, Southey proclaimed that an increase in taxes or in the public debt was never a cause for alarm, since they "give a spur to the national industry, and call forth national energies." And, in 1816, Southey advocated a large public works program for relief of unemployment and depression.[11]

The *Quarterly Review*'s desire for stringent government control and even ownership of the railroads was at least frankly linked with its hatred of the benefits that railroads were bringing to the mass of the British population. Thus, where the classical liberals hailed the advent of railroads as bringing cheaper transportation and as thereby increasing the mobility of labor, the *Quarterly*'s John Croker denounced railroads as "rendering travel too cheap and easy – unsettling the habits of the poor, and tempting them to improvident migration."[12]

The arch-Tory, William Robinson, who often denounced his fellow Tories for compromising even slightly on such principles as high tariffs and no political rights for Catholics, wrote many pre-Keynesian articles, advocating inflation to stimulate production and employment, and denouncing the hard-money effects of the gold standard. And the Tory, Sir Archibald Alison, inveterate advocate of inflation who even ascribed the fall of the Roman Empire to a shortage of money, frankly admitted that it was the agricultural class" that had suffered from the lack of inflation since resumption of the gold standard.[13]

Controls Under Elizabeth

A few case studies will illustrate the nature of mercantilism, the reasons for mercantilist decrees, and some of the consequences that they brought to the economy.

One important part of mercan-

[11] See Frank W. Fetter, "The Economic Articles in the *Quarterly Review* and their Authors, 1809-52," *Journal of Political Economy* (February, 1958), pp. 48-51.

[12] Quoted in *Ibid.*, p. 62.

[13] See Frank W. Fetter, "The Economic Articles in *Blackwood's Edinburgh Magazine*, and their Authors, 1817-1853," *Scottish Journal of Political Economy* (June, 1960), pp. 91-96.

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tilist policy was wage controls. In the fourteenth century, the Black Death killed one-third of the laboring population of England, and naturally brought sharp advances in wage rates. Wage controls came in as wage-ceilings, in desperate attempts by the ruling classes to coerce wage rates below their market price. And since the vast bulk of employed laborers were agricultural workers, this was clearly legislation for the benefit of the feudal landlords and to the detriment of the workers.

Textiles vs. Agriculture

The result was a persistent shortage of agricultural and other unskilled laborers for centuries, a shortage mitigated by the fact that the English government did not try to enforce the laws very rigorously. When Queen Elizabeth tried to enforce the wage controls strictly, the agricultural labor shortage was aggravated, and the landlords found their statutory privileges defeated by the more subtle laws of the market. Consequently, Elizabeth passed, in 1563, the famous Statute of Artificers, imposing comprehensive labor control.

Attempting to circumvent the shortage caused by previous interventions, the statute installed forced labor on the land. It provided that: (1) whoever had worked on the land until the age of 12 be compelled to remain there and not leave for work at any other trade; (2) all craftsmen, servants, and apprentices who had no great reputation in their fields be forced to harvest wheat; and (3) unemployed persons were compelled to work as agricultural laborers. In addition, the statute prohibited any worker from quitting his job unless he had a license proving that he had already been hired by another employer. And, furthermore, justices of the peace were ordered to set maximum wage rates, geared to changes in the cost of living.

The statute also acted to restrict the growth of the woolen textile industry; this benefited two groups: the landlords, who would no longer lose laborers to industry and suffer the pressure of paying higher wage rates, and the textile industry itself, which received the privilege of keeping out the competition of new firms or new craftsmen. The coerced immobility of labor, however, led to suffering for all workers, including textile craftsmen; and to remedy the latter, Queen Elizabeth imposed a minimum wage law for textile craftsmen, thundering all the while that the wicked clothing manufacturers were responsible for the craftsmen's plight. Fortunately, textile employers and

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workers persisted in agreeing on terms of employment below the artificially-set wage rate, and heavy textile unemployment did not yet arise.

Enforcing Bad Laws

The program of wage controls could not cause undue dislocations until they were stringently enforced, and this came to pass under King James I, the first Stuart king of England. Upon assuming the throne in 1603, James decided to enforce the Elizabethan control program with great stringency, including extremely heavy penalties against employers. Rigorous enforcement was imposed on minimum wage controls for textile craftsmen, and on maximum wage decrees for agricultural laborers and servants.

The consequences were the inevitable result of tampering with the laws of the market: chronic severe unemployment throughout the textile industry, coupled with a chronic severe shortage of agricultural labor. Misery and discontent spread throughout the land. Citizens were fined for paying their servants more than ceiling wages, and servants fined for accepting the pay. James, and his son Charles I, decided to stem the tide of unemployment in textiles by compelling employers to remain in business even when they were losing money. But even though many employers were jailed for infractions, such Draconian measures could not keep the textile industry from depression, stagnation, and unemployment. Certainly the consequences of the policy of wage controls was one of the reasons for the overthrow of the Stuart tyranny in the mid-seventeenth century.

Mercantilist Practices in Colonial Massachusetts

The young colony of Massachusetts engaged in a great many mercantilist ventures, with invariably unfortunate results. One attempt was a comprehensive program of wage and price controls, which had to be abandoned by the 1640's. Another was a series of subsidies to try to create industries in the colony before they were economically viable, and therefore before they would be created on the free market. One example was iron manufacture. Early iron mines in America were small and located in coastal swamps ("bog iron"), and primary manufactured, or "wrought," iron was made cheaply in local bloomeries, at an open hearth. The Massachusetts government decided, however, to force the creation of the more imposing — and far more expensive — indirect process of wrought iron man-

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ufacture at a blast furnace and forge. The Massachusetts legislature therefore decreed that any new iron mine must have a furnace and forge constructed near it within ten years of its discovery. Not content with this measure, the legislature in 1645 granted a new Company of Undertakers For An Iron Works In New England, a 21-year monopoly of all ironmaking in the colony. In addition, the legislature granted the company generous subsidies of timber land.

But despite these subsidies and privileges, as well as additional large grants of timberland from the town governments of Boston and Dorchester, the Company's venture failed dismally and almost immediately. The Company did its best to salvage its operations, but to no avail. A few years later, John Winthrop, Jr., the main promoter of the older venture, induced the authorities of New Haven colony to subsidize an iron manufacture of his at Stony River. From the governments of New Haven colony and New Haven township, Winthrop was granted a whole host of special subsidies: land grants, payment of all costs of building the furnace, a dam on the river, and the transportation of fuel. One of Winthrop's partners in the venture was the deputy-governor of the colony, Stephen Goodyear, who was thus able to use the power of government to grant himself substantial privileges. But again, economic law was not to be denied, and the ironworks proved to be another rapidly failing concern.

Debtors' Relief
A Scheme To Aid the Rich

One of the most vigorously-held tenets of the dominant neo-Marxist historians of America has been the view that inflation and debtors' relief were always measures of the "lower classes," the poor farmer-debtors and sometimes urban workers, engaging in a Marxian class struggle against conservative merchant-creditors. But a glance at the origins of debtors' relief and paper money in America easily shows the fallacy of this approach; inflation and debtors' relief were mercantilist measures, pursued for familiar mercantilist ends.

Debtors' relief began in the colonies, in Massachusetts in 1640. Massachusetts had experienced a sharp economic crisis in 1640, and the debtors turned immediately to special privilege from the government. Obediently, the legislature of Massachusetts passed the first of a series of debtors' relief laws in October, including a minimum-appraisal law to force creditors to accept insolvent debt-

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ors' property at an arbitrarily inflated assessment, and a legal-tender provision to compel creditors to accept payment in an inflated, fixed rate in the monetary media of the day: corn, cattle, or fish.

Further privileges to debtors were passed in 1642 and 1644, the latter permitting a debtor to escape foreclosure simply by leaving the colony. The most drastic proposal went to the amazing length of providing that the Massachusetts government assume all private debts that could not be paid! This plan was passed by the upper house, but defeated in the house of deputies.

The fact that this astounding bill was passed by the *upper* house – the council of magistrates – is evidence enough that this was not a proto-Marxian eruption of poor debtors. For this council was the ruling group of the colony, consisting of the wealthiest merchants and landowners. If not for historical myths, it should occasion no surprise that the biggest debtors were the wealthiest men of the colony, and that in the mercantilist era a drive for special privilege should have had typically mercantilist aims. On the other hand, it is also instructive that the more democratic and popularly responsible lower house was the one far more resistant to the debt relief program.

Paper Money Inflation

Massachusetts has the dubious distinction of having promulgated the first governmental paper money in the history of the Western world – indeed, in the history of the entire world outside of China. The fateful issue was made in 1690, to pay for a plunder expedition against French Canada that had failed drastically. But even before this, the leading men of the colony were busy proposing paper money schemes. The Rev. John Woodbridge, greatly influenced by William Potter's proposals for an inflationary land bank, proposed one of his own, as did Governor John Winthrop, Jr., of Connecticut. Captain John Blackwell proposed a land bank in 1686, the notes of which would be legal tender in the colony, and such wealthy leaders of the colony as Joseph Dudley, William Stoughton, and Wait Winthrop were prominently associated with the plan.

The most famous of the inflationary land-bank schemes was the Massachusetts Land Bank of 1740, which has generally been limned in neo-Marxist terms as the creation of the mass of poor farmer-debtors over the opposition of wealthy merchant-creditors of Boston. In actuality, its founder, John Colman, was a prominent Boston merchant and

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real-estate speculator; and its other supporters had similar interests – *as did* the leading opponents, who were also Boston businessmen. The difference is that the advocates had generally been receivers of land grants from the Massachusetts government, and desired inflation to raise the value of their speculatively-held land claims.[14] Once again – a typically mercantilist project.

Keynes Wouldn't Learn

From just a brief excursion into mercantilist theory and practice, we may conclude that Lord Keynes might have come to regret his enthusiastic welcome to the mercantilists as his forbears. For they were his forbears indeed; and the precursors as well of the interventions, subsidies, regulations, grants of special privilege, and central planning of today. But in no way could they be considered as "progressives" or lovers of the common man; on the contrary, they were frank exponents of the Old Order of statism, hierarchy, landed oligarchy, and special privilege – that entire "Tory" regime against which laissez-faire liberalism and classical economics leveled their liberating "revolution" on behalf of the freedom and prosperity of *all* productive individuals in society, from the wealthiest to the humblest. Perhaps the modern world will learn the lesson that the contemporary drive for a new mercantilism may be just as profoundly "reactionary," as profoundly opposed to the freedom and prosperity of the individual, as its pre-nineteenth-century ancestor. ◈

[14] See the illuminating study by Dr. George Athan Billias, *The Massachusetts Land Bankers of 1740* (University of Maine Bulletin, April, 1959).

A False Security

WHEN DESIGNS are formed to raise the very foundation of a free government, those few who are to erect their grandeur and fortunes upon the general ruin will employ every art to soothe the devoted people into a state of indolence, inattention, and security, which is forever the forerunner of slavery. They are alarmed at nothing so much as attempts to awaken the people to jealousy and watchfulness.

SAMUEL ADAMS, from the *Boston Gazette* of December 9, 1771

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City Zoning--

AN ECONOMIC WASTELAND

DONALD R. TERRY

DEMONSTRATIONS and heated discussions of burning issues often conceal facts and principles that would seem reasonably clear from the quiet comfort of one's armchair. The recent outbreaks of violence over human rights or civil rights make it hard to see that the real issue of the minority versus the majority boils down to the question: What are the rights of the individual which the government ought never to invade but should defend against violation by any other individual or group? In other words, what is the proper role of government in a free society?

This is no easy question, of course; but one way to approach it is to ask yourself and your friends, "Would you favor a law specifying how each of us is to spend or invest the money in his pay envelope?" The overwhelming response, I suspect, would be a vehement "No!" Yet, time and again, we have acted collectively to violate the rights to private property implicit in the foregoing question and answer. This inconsistency reflects our failure to understand the net effect of the laws we promote or permit.

My rude awakening on this matter came when we Councilmen of Louisville, Ohio, were asked to review a zoning case. I had always assumed, along with most others of the community, that zoning was the only way to protect the "right" of an individual to live in an area of the type he desired. But now I was jolted by a question about the effect of zoning on property rights.

I began to see that zoning acts

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as a law specifying how private property, in the form of real estate, may be used by its owners. The ultimate effect, I concluded, is a majority decision on how you and I may use our property — hardly consistent with a viewpoint stressing human liberty. Zoning, if we favor it, amounts to an insistence on our part that someone else protect and subsidize our privacy and our likes and dislikes.

For example, if your neighbor has a use for his property to which you object, only two alternatives are open to you: (1) you may, in the true spirit of the free market, bid for and buy the property, or (2) you can, by collective action, call out the police force to deny your neighbor *his* choice and enforce *yours* instead. Which of these is consistent with liberty and freedom?

This led me into further study of the history and background of the private property concept. Gottfried Dietze, in his book *In Defense of Property* (Chicago: Regnery, 1963) says "a prerequisite for incentive and human progress — is property [which] guarantees peace among individuals." Without guarantees of property, some use of the gun is inevitable. John Locke made it clear in his *Second Treatise of Government* that property enjoys protection as a natural right. Hume, the staunch Scottish proponent of limited government, stated that any property owned and improved by the individual must be secured to him. As Dietze points out, "The Declaration of Independence is to a great extent a document in defense of property." John Adams, in his *Defense of the Constitutions of Government of the United States of America* stressed the need for protecting each man's right to use his property as he saw fit. Dietze concludes that no discrimination against the right of property use can be justified, if the objective is compatibility with freedom. Can we deny the need to return to the complete protection of property, including the right of the owner to make the use he desires of it?

Examples of Waste

With this background, I began to reflect on the case before the Council. It involved a large building designed as a theater on a half-acre tract. This business property stood economically wasted for years because zoning laws prohibited any use except as a theater or residence, thus prohibiting the owner from introducing light industry. This property was not only well suited to such use but adjoined a railroad track and

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was on the boundary of a light industrial and commercial zone. True, the owner had made a mistake in locating a theater there. But why perpetuate, by law, such an economic waste of resources as well as a restriction on human liberty? As I pondered the case, there came to mind two reasons why government should not decide land use:

(1) Zoning denies freedom of choice by individuals and businesses to use their property to pursue their ultimate economic well-being; (2) thus, zoning collectively creates an unjustified economic wasteland that private owners wish to avoid. The following examples may help to clarify the fact that zoning denies freedom of choice:

First, there came before the Louisville City Council a businessman who could not erect a sign of certain height within a certain distance from the sidewalk. Why not build it back where zoning laws call for it? Large trees would obscure it, thus defeating its purpose.

The second case was that of a homeowner who developed a basement workshop where he did small repair jobs. Zoning laws denied his right to continue to pursue his economic goal.

The third example, recently related to me by a friend from another community, concerned a vacated dance studio. Neighborhood opposition, plus zoning laws, long frustrated the owner's efforts to sell. Finally, in spite of the opposition, he was given permission to sell it for use as a private kindergarten. The result has been the improving of the appearance of the property so it is no longer an eyesore. Indeed, property values have since risen throughout the neighborhood.

These cases illustrate how the right of property usage can be and is denied in many cases to individuals, businesses, and industries throughout this "land of the free." The result is a vast economic wasteland as owners are denied for years the economic use of their buildings and land. How can we progress if we deny owners the freedom to properly allocate resources?

Unwarranted Fears

The counter argument of the planner is that zoning is the only way to protect residential areas from invasion by industry. The answer is threefold, but simple. First, if homes are the proper allocation or usage of that land, then industry will not desire it. And remember, too, much of zoning is speculative regarding possible future use of areas. But what "planner" can know the fu-

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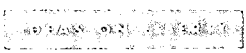
ture? Why not let the free market determine use? Second, we have ample evidence that, as manufacturing moves into an area, prices are bid upward; thus, the original owners can profit and still permit the best allocation of the land. Houston is an excellent example of a city developing in a logical manner under this principle. Third, the much feared public nuisance — the slaughter house or run-down mill — would be taken care of by the common law. Adequate decisions are available to uphold this principle, without resort to special zoning legislation.

Most of us agree that no man should be forced to use his resources if he does not choose to use them. By the same reasoning, no collective group should use the gun of the policeman to force anyone to waste his resources or to subsidize someone else's desires. To deny the right of any individual to use his own property according to his own choice is to jeopardize the freedom of everyone. ◈



Too Late to be Free

RECENTLY I wrote to the president of a large well-known university inviting him to join a group of college presidents in making known the arguments against the ever-growing federal subsidies of education. He replied that although he was in full agreement with our position that the subsidies are not in the long-range best interests of the colleges of the country, his own university was now so dependent upon funds from Washington that he could not exercise his rights as a citizen on this issue without jeopardizing the university he served.

DR. JOHN A. HOWARD, President of Rockford College

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THE AMERICAN TRADITION

8. Of Free Economic Intercourse

CLARENCE B. CARSON

Freedom of trade, or unrestrained liberty of the subject to hold or dispose of *his property as he pleases, is absolutely necessary to the prosperity of every community, and to the happiness of all individuals who compose it.*[1]

—PELATIAH WEBSTER

THE PRINCIPLE which informed American thought about economics during the period of the forming of the tradition was that *each man should have the rewards of his labor.* This was a moral ideal, however, not in itself a tradition. But customs, practices, laws, and institutions were developed which formed an American tradition. The particular idea which informed these latter was free economic intercourse. This phrase is somewhat unwieldy, but its diminutive – free trade – has been pre-empted for the more specialized function of referring to trade among nations. Much more is involved in economic intercourse than trade among nations.

Free economic intercourse was the means by which Americans expected each man to receive the rewards of his labor. How or whether he would get his due was his responsibility, of course. If he were free, he would have no

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Illustration: National Archives.

[1] Quoted in Max Savelle, *Seeds of Liberty* (New York: Knopf, 1948), p. 211. Webster was an American economic thinker, among other things, who published a book in 1791 which contains the above declaration.

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one to blame but himself if he did not. This kind of freedom leaves every man at liberty to pursue his interests in whatever way suits him and implicitly places upon him the responsibility for taking care of himself and his own.

In theory, free economic intercourse embraces all the external conditions by which free individual action in economic matters may take place. It involves the right of the individual to dispose of his goods, his property, his services, and his time at whatever prices and within whatever conditions are agreeable to him. He may sell to or buy from whoever makes an offer which he can or will meet. He may produce goods in whatever quantity of whatever quality he can and will, and offer them for sale wherever it suits him.[2]

Prerequisites for Trade

This appears so simple and to be so readily understood that we might be led to suppose that men would have perceived it all at the first dawn of consciousness. Yet so far as we know that was not the case historically. On the contrary, the nearest thing to examples of free economic intercourse appear to have occurred among peoples of high intellectual development. Such intercourse may even be a prerequisite of high civilization, or the two may go hand in hand. The explanation is not far to seek. The practices of free economic intercourse can be described simply, but the conditions within which they can regularly and predictably occur are most complex. The "mine and thine" of property must be carefully and rigorously distinguished by enforceable rules. Property protection requires an impartial force to prevent aggression by individuals and groups against property. Order must prevail generally. The citizenry needs generally to have learned to respect the possessions and rights of those in their midst. This depends upon a developed morality, sense of justice, and self-restraint. If free economic intercourse is to work tolerably well to the advantage of most men, the men must know how to look after their interests.

Knowing something of the delusions which men are wont to embrace, the passions which move them to unruly action, the frustrations to which they are subject, the disorders of soul and mind which plague them, it should not

[2] There are some obvious inherent limits on such action. If all men are to be free in this manner, none must trespass upon the property of another. There will be at least two parties involved in any trade, and every man is limited by the necessity of getting the agreement of the other parties to any transaction.

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surprise us that approximations to free economic intercourse have been rare in history. Rape and pillage, wanton destruction and aggression, war and disorder have been much more common on this earth. Established freedom of contract, harmonious international relations, settled rules for economic transactions, political neutrality are artistic accomplishments of the highest order.

We might suppose, then, that historians would celebrate in memorable prose the great moments of history when such accomplishments have occurred, that the people would remember and immortalize as heroes the men who fostered the developments, that we would look back in longing or with gratitude to the foundations of such an order. Yet it is not so today in America. Intellectuals regularly sneer at the "Puritan ethos," "laissez-faire" economics, and "rugged individualism," thus misnaming and misunderstanding that which they would denounce. Most historians, having considerably more respect for accuracy in dealing with the past and a somewhat better understanding of it, bog down in the details of long past contests or read their unconscious assumptions about class conflict and the "exploitation" of labor into their accounts of the past. Though a multitude of books streams from the presses, books which deal in some way with American history, one searches among them in vain for a straightforward account of the development of free economic intercourse. Thus, a great tradition falls into obscurity.

Exceptions Color History

There was, then, an American tradition of free economic intercourse. It was never perfectly realized, not even as nearly as it might have been. Exceptions existed at the height of its development, and some will be noted. We should keep in mind, however, that exceptions frequently occupy the center of the stage in written history. Students of American history of the nineteenth century are likely to encounter frequent references to the national bank and to tariffs. These are of some importance. They did lead to dramatic debates and did occasion decisive action. It must be kept in mind though that they were islands of government intervention in an ocean of liberty.

It is very difficult to dramatize liberty, which may be one of the reasons it gets so little play in many histories. There may be exciting events by which it is won — legislative debates, oratorical flights in the courtroom, or decisive battles — but once won, it

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takes its place among the ordinary experiences of life. Liberty then becomes a matter of the routine enforcement of laws, the absence of oppressive action by government, the "uninteresting" civil suits in courts more often than the dramatic murder trial, and the millions of acts of self-restraint by citizens. Small wonder that we lose sight of it!

The absence of restraint – which constitutes a major portion of free economic intercourse – can best be recognized by holding it up against restraint at some other time in history. This can be done in American history.

Narrow Nationalism

The American colonies were settled at a time when the relics of medieval restrictions were being absorbed into mercantilism, a new species of authoritarianism. The most salient feature of mercantilism was the attempt to use the governmental authority to direct the economic activities of a people toward the acquisition of national wealth. It was a highly nationalistic program, and it spawned many of the devices by which free economic activity has been hampered in the modern era. In the sixteenth and seventeenth centuries, when the ideas associated with mercantilism were first enunciated, wealth was visibly represented to most men as gold or, to a lesser extent, other precious metals. National wealth was sought by way of enhancing the gold supply of the nation. For most European countries, including England, this meant getting it from some country which already possessed it. In order to do this – since piracy was falling into disrepute, besides being dangerous – countries attempted to get a favorable balance of trade, i.e., to sell more to other countries than they bought from them. The balance would then be paid in gold.

Numerous restrictions were adopted to achieve this end. Imports were discouraged by prohibitions and tariffs. Exports were stimulated by paying bounties for the production of staples that would be valuable in the export trade. As one writer puts it, "the full panoply of protective tariffs came early and quickly into existence – prohibitions on the export of bullion, wool, and naval stores, bounties upon the export of corn and some manufactured goods, duties upon the import of foreign textiles and exotic luxuries."[2] In the foreign trade, monopolies were granted to trade associations such as the Merchant Adventurers and to joint stock

[2] Philip W. Buck, *The Politics of Mercantilism* (New York: Holt, 1942), p. 14.

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companies such as the East India Company. Prices and qualities of goods were subject to regulation. "Labor, recognized as one of the essential factors of production, was subjected to careful control." There were wage ceilings. "The training of the laborer was established in the acts which governed apprenticeship."[3] There were even attempts to control consumption, such as establishing fish days and prohibiting the importation of foreign luxury goods.

Colonial Mercantilism

The English colonies in America were founded mainly for mercantilistic ends, so far as the English government was concerned. If not in some cases, they were later used in this way. Colonies were to contribute to the self-sufficiency of the mother country by providing products which could not be grown or produced there. They were to buttress the export trade by producing staples which other countries wanted. Thus, the colonists were subjected to regulations with this end in view. Over the years, a great number of restrictions were placed on colonial trade and economic activity by England. The Navigation Acts attempted to restrict the carrying trade to English (or colonial) built and manned ships, as well as prescribing that certain goods must be sold only through England. The Staple Act of 1663 made it unlawful for the colonists to buy certain products directly from foreign countries. They had, instead, to be shipped first to England where duties would be collected on them. The exportation of specie from England was made illegal. There were other acts of the British Parliament prohibiting certain kinds of manufactures in the colonies, restricting trade among the colonies, and limiting settlement.

It should not be supposed, however, that colonial governments were averse to mercantilism. Colonists chafed at restraints imposed from without, but wanted to use their own governments to advance the interests of the colonies by mercantile regulations. Indeed, most colonies had a multitude of regulations of their own devising. They had restrictions inherited from the Middle Ages. Land was likely to be encumbered by quitrents, entail, and primogeniture. There was some effort to perpetuate craft guilds along European lines in America. The apprentice system was much used. "As early as 1724 the master carpenters in Philadelphia had established a price or wage scale, and the practice soon spread to other towns. . . . In 1724 the barbers of Boston

[3] *Ibid.*, p. 17.

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agreed to raise the price on shaves and wigs and to fine any member £10 who shaved a man on Sunday."[4]

Legislative Controls

The Puritans in New England even attempted to revive practices from the Middle Ages that had already fallen into disuse in England. John Cotton attempted to revive the doctrine of "just price."[5] At any rate, economic legislation abounded in the colonies. Blacksmiths were compelled to repair firearms, and weights and measures were regulated. "Inns, mills, and ferries were subject to control. Charges were limited by law, and the obligations of such institutions were legislatively defined. . . . Efforts were made to determine fair prices, fair wages, and reasonable profits."[6] The exportation of foodstuffs was sometimes prohibited, as was that of gold and silver. Some colonies attempted to develop manufactures by prohibiting the importation of certain commodities. Bounties were frequently offered by governments to stimulate the production of desired articles. Exemptions from taxation and monopolies were also granted. "Massachusetts granted a twenty-one year monopoly to the Braintree ironmakers, together with 'freedom from public charges. . . .' Virginia, in 1661-62, exempted tradesmen and artisans from the payment of tax levies."[7]

There were attempts to impose limits on land uses and on the amount to be held. Virginia tried to control the production and prices of tobacco, and made "repeated attempts to legislate into existence warehouses or even towns. . . ."[8] Import duties were levied in the seventeenth century primarily to regulate consumption. "Even in Virginia, where indirect taxation was favoured . . . , import duties were designed almost as much for sumptuary purposes as for fiscal. This was true, for example, of the law of 1661, which imposed duties on rum and sugar."[9]

Unsuccessful Efforts

Actually, however, much of this sumptuary, regulatory, and restrictive legislation is usually de-

[4] Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1959), p. 51. The "as early as" in the quotation is of doubtful validity. It probably should read "as late as," since these organizations appear to be relics of the medieval craft guild rather than modern trade unions.

[5] See E. A. J. Johnson, *American Economic Thought in the Seventeenth Century* (New York: Russell & Russell, 1961), pp. 8-9.

[6] *Ibid.*, p. 17.

[7] *Ibid.*, p. 29.

[8] Savelle, *op cit.*, p. 189.

[9] Johnson, *op cit.*, p. 254.

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scribed as "attempts" to control economic activity. Frequently, it was not very effective, nor was it so pervasive as this random account of laws in various colonies might appear to indicate. Colonists resisted attempts to control their lives, evaded and ignored regulations, and persisted in going about their affairs as they saw best. From the outset, many of the medieval and mercantile rules did not accord with the possibilities of the situation in the New World. It was easy in the rather simple circumstances to trace out the consequences of actions; whereas, in more complex surroundings cause can be more readily separated from effect.

Specific examples may help to illuminate the point. Both the Virginia and Plymouth colonies were begun as corporate undertakings. The companies owned the lands, and the settlers were to be servants of the companies. The produce went into a common storehouse; any surplus beyond what was needed went to the owners. In theory, all produce belonged to the companies. The consequences, we would say, were predictable:

> This plan did not yield good results. In Virginia the settlers "loafed on the job," since they got a living, irrespective of their personal efforts. They could receive but little, if any, benefit from the colony's surplus; hence a surplus was not produced. The Plymouth colonists became acutely dissatisfied for a number of reasons. The labor of unmarried men benefited other men's families; married men did not like to have their wives work for other settlers; the older men objected to being placed on a par with the younger; and the industrious workers thought it unjust that they received no more than the idlers.[10]

In short, the attempt at modified communism failed, and it was abandoned in a few years. Even before Plymouth gave up on it, however, a miniature instance of Lenin's New Economic Policy occurred. As one history tells it, "In 1623 a food shortage in the colony caused a temporary abandonment of the corporate method of farming. . . ."[11] The land was shortly sold or conceded to settlers as private property, and economic conditions improved greatly.

The trade monopolies of the companies suffered a similar fate. Once the colonists owned the land, the produce was theirs, and they insisted upon selling it to the highest bidder. The attempts to monopolize the fur trade fared little better. Several of the colonies attempted to control this

[10] Curtis P. Nettels, *The Roots of American Civilization* (New York: Appleton-Century-Crofts, 1963, rev. ed.), p. 223.

[11] *Ibid.*

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trade for the benefit of the companies, proprietors, or governors, but to no avail. "Thus in New Netherland both the employees of the company and the patrons traded privately in defiance of its monopoly, while in Massachusetts, Virginia, South Carolina, and Pennsylvania local merchants and officials successfully resisted corporate or proprietary control."[12]

The Trend Toward Freedom

It is safe to say, in consequence of these experiences, that Americans became attached to private property and private trade, and that the powers over them recognized its importance for production. More broadly, the tendency was for attempts to regulate economic activity to break down over the years. The efforts to transplant the relics of medievalism in the New World, to impose mercantile and religious restrictions, usually failed. Even the British may have tacitly recognized this by their policy of "salutary neglect." One historian concludes his account of *American Economic Thought in the Seventeenth Century* on this note: "The futility of governmental control of wages in a dynamic society became increasingly apparent. . . . Freedom to buy and sell, freedom to establish mercantile or industrial businesses, occupational mobility, all these became inseparable phases of American economic liberty."[13]

Americans edged toward the formation of a tradition of free economic intercourse in the eighteenth century. Craft guilds lost their following, and the courts began to describe their efforts to control as a conspiracy. Restrictions upon land and property fell away. Customs and practices which augured an American tradition were taking hold. By the mid-eighteenth century, an intellectual outlook was gaining adherents, an outlook which was used to knit together experience and practices into a coherent philosophy.

Founded in Natural Law

The mainspring of this new outlook was the belief in a natural order for social arrangements based upon the nature of man, natural law, and natural rights. Many believed that it was imperative to act in accord with this natural order because God had set his stamp of approval upon it by building it into the universe. This belief spurred men to the discovery, proclamation, and adoption of a natural order in economics. The great codification of this order is Adam Smith's *Wealth of Nations*, published in

[12] *Ibid.*, p. 228.

[13] Johnson, *op. cit.*, p. 270.

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1776, the same year as the Declaration of Independence. Smith was an Englishman, but many American contemporaries could concur in his formulation, for they had already or were arriving at similar conclusions.

Many instances of a belief in free economic intercourse can be found in the writings of Americans in the latter part of the eighteenth century. Benjamin Franklin declared that "it seems contrary to the nature of Commerce, for Government to interfere in the Prices of Commodities. Trade is a voluntary thing between Buyer and Seller, in every article of which each exercises his own Judgment, and is to please himself."[14] Pelatiah Webster said, "I propose . . . to take off every restraint and limitation from our commerce. Let trade be as free as air. Let every man make the most of his goods in his own way and then he will be satisfied."[15] One writer sums up Webster's arguments thusly:

(1) Laissez-faire results in maximum production, because this yields the most profit. . . .

(2) Freedom of enterprise brings about production of the best quality of goods, because they will sell more readily and more profitably than goods of poor quality. . . .

(3) Unrestricted "liberty"[16] stimulates the production of the most needed and most scarce goods. . . .

(4) Natural liberty produces a contented and happy citizenry because the laws neither favor nor restrain any one. . . .

(5) Laissez-faire assures the frugal use of scarce and dear goods, because their high prices cause people to purchase and consume them sparingly.[17]

In a different vein, Richard Henry Lee declared: "Liberty, in its genuine sense, is security to enjoy the effects of our honest industry and labors, in a free and mild government, and personal security from all illegal restraints."[18]

Jefferson Speaks for Freedom

Perhaps the most articulate spokesman over the years of free economic intercourse founded upon a natural order was Thomas Jefferson. In general terms, he observed "that a right to property is founded in our natural wants, in the means with which we are endowed to satisfy these wants,

[14] Quoted in Virgle G. Wilhite, *Founders of American Economic Thought* (New York: Bookman, 1958), p. 308.

[15] *Ibid.*, p. 172.

[16] The author is hostile to this general line of reasoning, which explains the enclosure of liberty in quotation marks. He attempts to refute each of the points after he describes it.

[17] Wilhite, *op. cit.*, pp. 173-74.

[18] "Letters from the Federal Farmer," *Empire and Nation*, Forrest McDonald, intro. (Englewood Cliffs: Prentice-Hall, 1962), p. 138.

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and the right to what we acquire by those means without violating the similar rights of other sensible beings; that no one has a right to obstruct another exercising his faculties innocently for the relief of sensibilities made a part of his nature. . . ."[19] Moreover, he thought that "the exercise of a free trade with all parts of the world" was "possessed by the American colonists as of natural right. . . ."[20] Specifically, "I would say, then, to every nation on earth, *by treaty*, your people shall trade freely with us and ours with you, paying no more than the most favored nation, in order to put an end to the right of individual States, acting by fits and starts, to interrupt our commerce or to embroil us with any nation."[21]

The Record Is Clear

The general trend of thought, as summarized by one historian of the eighteenth century, "was moving toward a general ideal of economic freedom."[22] Thought, however, is an auxiliary to rather than being a tradition. The tradition must be discovered from what the Americans established after they broke from England. Here, the record is rather clear. They made great strides within a few years toward the establishment of free economic intercourse. With the break, of course, they cast off an externally imposed restraint on their trade. It should be reported, however, that some of the states adopted mercantilistic practices during the period of the Confederation. Several states even set price ceilings during the war. They failed, and in 1778 Congress recommended that they be suspended or repealed, with this interesting explanation:

> It hath been found by Experience that Limitations upon the Prices of Commodities are not only ineffectual for the Purposes proposed, but likewise productive of very evil consequences to the great Detriment of the public Service and grievous Oppression of Individuals.[23]

Even so, efforts along these lines were continued in the next few years in some of the states.

Boosters of Trade

American trade with the rest of the world opened up rapidly in the 1780's, but the adoption of the Constitution of 1787 spurred even greater advancement. This new instrument of government took away from the states the power to levy import duties. It

[19] *The Political Writings of Thomas Jefferson*, Edward Dumbauld, ed. (New York: Liberal Arts Press, 1955), p. 49.
[20] *Ibid.*, p. 19.
[21] *Ibid.*, p. 130.
[22] Savelle, *op. cit.*, p. 226.
[23] Quoted in Fite and Reese, *op. cit.*, p. 110.

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prohibited a tax on exports, gave Congress the power to regulate interstate commerce, and forbade states to lay import duties on goods coming from other states within the United States. Thus, trade was free within the United States and nearly so with the rest of the world.

The remainder of the restrictions upon property were removed: quitrents were no more; entail and primogeniture were abolished. An individual (at least a male over 21) could buy, sell, bequeath, and inherit property without let or hindrance. Indentured servitude disappeared. A market system for determining prices generally prevailed; some cities may have retained a few regulations, but in general there were few, if any. White labor was free of controls; a man could sell his services at whatever prices he could obtain and work whatever hours were agreeable to him and his employer. He and his employer were protected by the courts from the use of coercion by such unions as existed. A writer in 1819 declared:

> In commerce and navigation, the progress of the United States has been rapid beyond example. Besides the natural advantages of excellent harbours, extensive inland bays and navigable rivers, it has been greatly in favour of their commerce, that it has not been fettered by monopolies or exclusive privileges. Goods or merchandise circulate through all the states free of duty, and a full drawback, or restitution of duties of importation, is granted upon articles exported to a foreign port. . . . Maritime and commercial business is executed with more celerity and less expense than in any other country. Vessels in the ports of the United States are laden and unladen in the course of a few days, whilst in those of other countries, as many months are required for the same purposes, owing to tedious regulations and less enterprise.[24]

Crevecoeur sang the praises of the American system of freedom and its consequences:

> The American ought therefore to love this country much better than that wherein either he or his forefathers were born. Here the rewards of his industry follow with equal steps the progress of his labour; his labour is founded on the basis of nature, *self-interest;* can it want a stronger allurement?[25]

Land of Opportunity

It was a land of almost unbounded opportunity. "A man no longer needed a fortune of his own. If he had imagination, en-

[24] Quoted in Marvin Meyers, *et. al., Sources of the American Republic,* I (Chicago: Scott, Foresman and Co., 1960), 250.

[25] *Ibid.,* p. 282.

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ergy, and a good character in the community, he could buy land or stock, become a merchant or a manufacturer, with money borrowed from a bank or supplied by some well-to-do individual willing to gamble on a share of a future profit."[26]

A tradition of free economic intercourse had taken shape. The right of a man to the fruits of his labor was protected and respected. His right to use and dispose of what was his as he saw fit was virtually beyond question. Taxes were low; government was limited. There were, however, exceptions to freedom in nineteenth century America. Obviously, Negro slaves could not dispose of their time and labor as they saw fit. Women were still hampered by custom and law. State governments were inclined in the early part of the century to adventures in helping to finance such undertakings as the building of canals, activities which disturbed the workings of the market and probably accounted for overbuilding, unprofitable building, and speculative booms and busts. The United States government entered the field also with the national bank and protective tariffs.

Nonetheless, the general tendency was in the direction of the development of the tradition of free economic intercourse for most of the nineteenth century. The slaves were emancipated. Women got many of the rights that had formerly belonged to men. From the 1830's to 1860, the governments tended to withdraw from economic affairs. In the latter part of the nineteenth century, governments gave considerable encouragement to industrialization, avoided regulation and control, created some instability by fluctuating monetary policies, and contributed to some unwise railroad building by grants and loans. Even so, freedom was the rule and interference the exception.

Economic Growth

The consequences of this tradition of free economic intercourse should be well known. Americans opened up a continent, built a vigorous merchant marine, cut down the forests and utilized the farm lands, discovered and utilized great quantities of minerals, made a multitude of inventions and entered the field of manufacturing vigorously, and developed an industry and agriculture of dimensions which could hardly have been imagined at the beginning of the nineteenth century.

What was the *cause* of this tremendous economic development?

[26] Charles M. Wiltse, *The New Nation* (New York: Hill and Wang, 1961), pp. 54-55.

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Undoubtedly, many conditions made it possible: there were land, natural resources, the bent of the people to utilize the resources, and much else besides. Many historians in the twentieth century have favored the view that the fabulous natural resources of America account for the prosperity of America. This, and the others mentioned, is a condition, however, not a cause of development. The resources had lain in America for millennia unutilized. People *caused* the economic development of America. Individuals provided the effort and labor which used the resources. What was the source of this effort? What released the energies of Americans? Above all else – and let it be writ large – it was FREEDOM. Anyone who doubts this proposition should make a comparison of the development of the Russian Empire in the nineteenth century with that of the United States. Many differences might be enumerated, but one that is ascertainable looms above the others – the difference in the amount and degree of liberty.

Blessings Backfire

One might suppose, then, that the blessings of liberty would have made Americans inseparably attached to it. It was not so, however. When men are at liberty to exert themselves as they will, some will accumulate and have much more than others. The increasing material prosperity, the abundance and variety of goods available, may have aroused envy in those who had less. The protective tariffs of the latter part of the nineteenth century did set the stage for talk of monopolies and may have protected industries to the disadvantage of consumers. Immigrants poured into America who had little understanding or appreciation of the American traditions. Above all, collectivist reformers implanted their ideas in the minds of intellectuals and the discontented. A campaign was waged against bigness in business, against "Wall Street," against the wealthy, against business itself. If they were not as well off as they would like to be, laborers were told that they were being exploited. If farmers were not getting as high prices as they would have liked, they were told that they were not getting their fair share. If artists and intellectuals were not appreciated in America as they were in Europe, it was because of the business motif in America. As for economic liberty, it was all very well in an earlier America, when there was land and opportunity available. But in a complex industrialized America "individualism" was out-

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moded. So people were told, and told, and told, until they began to believe it.

The Loss Was Gradual

Thus, the stage was set for the departure from the American tradition of free economic intercourse. Despite the efforts of socialists in the late nineteenth and early twentieth century, however, Americans rejected the revolutionary road to socialism. It is unlikely that a people who have been acclimated to freedom would give it up all at once for the oppression of socialism. After all, our histories still told of the sorry experiences at Jamestown and Plymouth. But people could be persuaded, by the skillful and devious use of language, to yield up their liberty bit by bit. But I would not be understood to be describing a conspiracy. Such evidence as I am familiar with indicates that most Americans who have fostered the reform programs which have diminished liberty believed that they were doing what was best for America, and that they could still retain "important" rights.

At any rate, economic intercourse is severely circumscribed in twentieth century America. The use of property is strenuously regulated in most municipalities. One must get permission to make an addition to his house. Laborers cannot sell their services at the prices at which they might be willing. There are minimum wage and maximum hour laws. Numerous regulations and restrictions apply to goods that are offered for sale. Most of those who work *must* contribute to Social Security. Graduated income taxes penalize the acquisition of wealth and reward the bearing of children. The courts have been so busy misinterpreting the meaning of that clause of the Constitution which gives Congress the power to regulate interstate commerce that they have hardly noticed the difficulties the states have been raising to discourage intercourse among them. I have in mind "use" taxes, particularly, but there are probably many other things of like character.

The Result Disastrous

It would be a sanguine task for me to enumerate all the regulations, restrictions, and interventions which our governments are engaged in today. Our tobacco and liquor laws are a modern day version of sumptuary laws; our subsidies to the merchant marine, to air travel, to sundry "defense" industries are modern day bounties. One of the great ironies is that many of these programs have been pushed as being progressive.

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One might suppose that they were recent inventions to be utilized. It is not so. They are hoary with age. Paternalism, mercantilism, authoritarianism, have been the common lot of man through the ages. What was new and exciting about the age from which our legacy came was the experiment with and achievements that were fostered by individual liberty. Free economic intercourse was an important aspect of this individual liberty. It was once established as a part of the American tradition.

Today's reactionaries – i.e., "liberals," meliorists, socialists, and so forth – would close that gap in our history occupied by freedom and restore the controls, regulations, bounties, sumptuary laws, and limitations upon property which our ancestors shed with so much pain. They would do more, for there are new things in our age. The technology of our age makes possible an oppressive supervision that was not available to the agents of the English King. Totalitarianism *is* a modern phenomenon, but it is built upon presumptions which have a long history. The American tradition grew out of the resistance to giving those under the sway of these presumptions the unlimited force of government. It was a tradition of freedom – even of free economic intercourse. ◈

• *The next article in this series will treat "Of Internationalism"*

To Alleviate Misfortune • Leonard E. Read

"No one must profit from the misfortune of others."

This, like several clever plausibilities, is an international socialistic cliché. In Norway, for instance, the socialists are arguing, "No one must profit from the illness of others," their aim being to bring all retail drugstores into state ownership and operation. The socialists, here and elsewhere, will, invariably, use bad predicament, disaster, misfortune as an argument for socialization.

It is important that we not be taken in by this "reasoning." *Once we concede that socialism is a valid means to alleviate distress, regardless of how serious the plight, we affirm the validity of socialism in all activities.* Or, in other terms, when we rule out

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profit or the hope of gain as a proper motive to supply drugs or to alleviate illness or to provide other remedies for misfortune, we must, perforce, dismiss profit as a proper motivation for the attainment of any economic end.

Consider the scope of misfortune. True, illness is a misfortune as would be the nonavailability of drugs. But suppose there were not a single physician or surgeon! Or no food! Or no transportation of any sort! Most of us would think of ourselves as the victims of misfortune were we to be deprived of electricity. And telephones? Clothing? Heat? Shelter? Gas and oil? Indeed, *the absence of any good or service on which we have become dependent qualifies as misfortune.* Imagine the disappearance of all power tools. This would be more disastrous than a head cold, diabetes, pernicious anemia, or the inability to get a prescription filled at a drugstore. Our dependence on power tools is such that most of us would perish were they to disappear. But does the possibility of their disappearance (and the inevitable mass suffering and death that would follow it) warrant the setting up of a state owned and operated power tool industry?

Viewed in economic terms, man spends his earthly days working himself out of and insuring against this or that type of misfortune. Bad predicament is our lot except as we succeed in extricating ourselves, and it is no more to be identified with sickness or drug shortage than with fuel or housing or food scarcity.

Scarcity of Goods and Services Is the Problem

Economics, as a discipline, concerns itself with the means of overcoming the scarcity of goods and services, and it matters not one whit what good or service is in short supply. Broadly speaking, two systems, now in heated contention, are advanced as the appropriate means to overcome economic misfortune.

The first, to any casual observer, looks more like chaos than a system. Its credo is freedom in exchange: Let everyone act creatively as he wishes, unattentive to five-year plans or the like; that is, let each person pursue his own gain or profit – willy-nilly, if you please – as long as he allows the same freedom to others. Government, the social agency of compulsion, has no say-so whatsoever in creative actions; it is limited to framing and enforcing the taboos against fraud, violence, predation, and other destructive actions. This philosophy permits no man to ride herd over men. Would-be dictators, mind your

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own business! The right to the fruits of one's own labor is of its essence, individual freedom of choice its privilege, open opportunity for everyone its promise, the hope of personal achievement – gain or profit – its motivator. Call this the market economy.

The second is definitely a system: an organized, political hierarchy planning everything for everyone. The hierarchy prescribes what people shall produce, what goods and services they may exchange and with whom and on what terms. In this command economy people are ordered where to work, what hours they shall labor, and the wage they shall receive. It is arbitrary people-control by the few who succeed in gaining political authority. The political eye is on the collective; freedom of choice, private ownership, and profit are among its taboos. Briefly, it is the state ownership and control of the *means* as well as the *results* of production. Call this socialism.

Socialism Has Been Tried

No question about it, the results of production can be and are successfully socialized, that is, they can be and are effectively expropriated. Further, they can be and are redistributed according to the whims of the hierarchy and/or political pressures. But socialism, like Robin Hoodism, demands and presupposes a wealth situation which socialism itself is utterly incapable of creating.[1] It can redistribute the golden eggs but it cannot lay them. And it kills the goose!

Refer to the early Pilgrim experience, 1620-23. All produce was coerced into a common warehouse and distributed according "to need." But the warehouse was always running out of provender; the Pilgrims were starving and dying. They did, in fact, socialize the *results* of production but, by so doing, they weakened the *means* and, thus, had little in the way of *results* to distribute.[2]

Those who have few if any insights into the miracle of the market are led into the false notion that the communalization or communization or socialization of an activity reduces costs because no profit is allowed. The fact is to the contrary. The oldest socialized activity in the U.S.A. is the Post Office. It loses $2 million daily and the cost of the service is constantly on the increase.[3]

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[1] This fact requires a lengthy explanation. See "Socialism: A Barren System," *The Freeman*, March, 1963.

[2] For further explanation of the Pilgrim experience, see "Conscience of the Majority," *The Freeman*, March, 1961.

[3] For a critique of socialized mail delivery and the case for free market delivery, see *The Freeman*, July, 1957 and October, 1962.

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The Profit Motive

A distinguishing feature of the market economy is the profit *and loss* system. But, contrary to what casual scrutiny reveals, profits are not added into price; they are, in effect, taken out of cost. The profit and loss system is an impersonal, couldn't-care-less, signaling system: the hope of profits entices would-be enterprisers into a given activity and losses ruthlessly weed out inefficient, high-cost producers. The profit on the first ball point pens cried out, "Come on in, the water's fine." Today, there are ball point pens used for give-aways.[4] I paid $250 for my first radio. An incomparably better one can now be had for $7.95. To claim that such examples number a million would be a gross understatement.[5]

Conclusion: When an activity is in the doldrums, threatening misfortune, we should not attempt revival by a resort to socialism, for it can perform no more than a malfunction: political redistribution! Be the dying industry drugstores or agriculture or railroads or opera or whatever, remove the fetters! Free the market, which is to say, let the hope of profit attract all aspiring producers and let the stern, uncompromising, impersonal lash of losses weed out the inefficient, leaving only the most efficient in charge of overcoming our bad predicaments.

Apart from theory and looking solely at the enormous record, the individuals sorted out by the market are more efficient (lower-cost) managers of human and natural resources than are political appointees. If we remove the hope of profit as a means to alleviate misfortune – poverty, illness, misery, disaster – we shall increase our misfortunes and make them permanent. ◈

[4] See "Profits" by Dr. Benjamin A. Rogge, *The Freeman*, August, 1963.

[5] One corporation alone manufactures more than 200,000 items. The total for the nation is incalculable.

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IDEAS ON LIBERTY

Milk Cow or Watchdog?

SOME 2,000 years ago, it was Plutarch who warned: "The real destroyer of the liberties of the people is he who spreads among them bounties, donations, and benefits." And it was an old French peasant who made the sad observation after the collapse of France in World War II, burdened with social subsidies: "My country fell because we had come to consider France as a cow to be milked and not a watchdog to be fed."

From the *Reporter* published by the Associated Industries of Missouri

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JOHN C. SPARKS

A Question of

A RECENT news item told how a child's life depended on an operation which the well-meaning parents refused to permit. Such instances are rare, involving only one or a few lives, yet they provoke widespread consternation at what appears to be dark ignorance.

Meanwhile, more serious social ills involving everyone in the nation are being improperly treated, often upon recommendation by those in positions of high responsibility and trust. I refer specifically to the Negro problem and the part played by various professional and lay church leaders. The aggravating treatment consists of governmental intervention beyond its proper police-power, administered to the sick patient in ever larger doses.

"Civil rights" or "human rights" often are implied to be superior to, or at least different from, "property rights." It must be acknowledged that property has no rights in and of itself; involved only is the human right to the use and control of one's own property. The story of civilization seems to confirm that the paramount requirement for life and liberty is the individual's right to own property.

The founders of this country were keenly aware of the vital relationship between freedom and the private ownership of property. Thomas Paine wrote of the right to property which should be sacred and inviolate. Thomas Jefferson enumerated certain rights he deemed essential to man, including the right to own and manage property. John Adams said, "the moment the idea is admitted to society that property is not as sacred as the laws God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence." Earlier, in 1768, Samuel Adams stat-

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ed that "it is an essential, unalterable right in nature . . . . that what a man has honestly acquired is absolutely his own, which he may freely give, but cannot be taken from him without his consent."

In his book, *In Defense of Property* (Chicago: Regnery, 1963), Gottfried Dietze, professor of political science at Johns Hopkins University, describes the rise of man's freedom in company with the "increase in the legitimization of property. The latter increase was closely connected with the elevation of individuals from the status of subjects to that of citizens. . . . Property rights, as ingredient parts of human freedom, came to be considered natural rights that could be claimed by the individuals against the government. The institution of private property thus truly reflects the growth of civilization, a growth that is largely characterized by the expansion of freedom."

Who Owns It?

What has all this to do with the Negro problem?

In their anxiety to bring about racial equality, some church groups are officially demanding national legislation that will forcibly curtail certain rights of property owners. Of course, it is said that only those property owners who discriminate on the basis of race will lose these rights. This is like saying that a teenager is free to spend his allowance as he wishes as long as he does not spend it on milk shakes, records, or at the amusement parks!

Pete owns a car. Only those persons he invites may ride in his car. This is Pete's right. If Jack wants to ride and Pete objects, Jack has no right in Pete's car. If Jack enters and refuses to leave until he has a ride, Pete can call the police to remove the trespasser.

A third party well acquainted with the two, may think Pete is selfish; but a third-party appraisal of motivating factors has no bearing on the fact that Pete owns the car and has the right to decide how and by whom it will be used – subject, of course, to traffic regulations. He can even let it sit permanently in his garage or park it in the back lawn, fill it with dirt, and have flowers grow out of it. Ridiculous? To me, yes! But I am not the owner. What if Jack is colored? Does this change Pete's right to say who shall ride in his car?

Pete also owns a small restaurant. He enjoys preparing spaghetti according to an old family recipe, and serves nothing but *spaghetti á la Pete*. Many potential customers will stay away

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simply because he offers no other entree. But Pete is entirely within his rights, whether or not his decision seems economically sound.

Pete may limit his patronage in other ways. If he contracts to cater full time at a country club, only club members and their guests will be his customers. If he decides to close his restaurant during certain hours, customers may not then enter and eat. He may develop an exotic food service designed to attract a special clientele. A choice must be made in consideration of the customers he wishes to attract. If Pete is a sound businessman, many factors will have been weighed seriously before he sets the course of his venture. And this is understandable, because he has invested *his* savings and *his* effort in the restaurant. His objective is to attain a profitable return on his investment. Failing this, he will not long continue in the business.

Scores of decisions confront Pete, many of which will be answered indirectly by his customers. If his brother works for him and is discourteous to the customers, Pete may ask him to find another job. If the customers do not like the food, Pete will have to change chefs. If some customers are boisterous, other customers may be lost. A certain level of deportment must be maintained to encourage continuous patronage from the customers he would serve.

This does not mean that Pete lacks love for his brother or that he bears a personal grudge against the displaced chef. Neither does he dislike customers – potential or otherwise. He will offer his service to any customer helping him achieve his goal and withhold service from those who frustrate his aims.

Use Determined by Owner

The racial issue can be inserted anywhere in the sequence of policy questions to be decided by Pete or any other owner. Under some circumstances some owners will use color as the determining factor for their actions. Other owners in similar circumstances will choose other courses of action. Some may reach their decisions without regard to color at all.

This description of a restaurant owner's policy decisions is not intended to excuse him for foolish or immoral choices. The point is that no third party is capable of dictating a course of action, since the third party has no chips in the pot – no ownership responsibility. The owner is solely responsible – and whether he is right or wrong – only he should decide.

If I think an owner is acting

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immorally because he decides to serve only non-Negro customers, I may try to persuade him to revamp his policy, perhaps withholding my patronage if he refuses. I can do this without invading his right to use his property as he sees fit – to make his own decision, whether wise or foolish. He has a right to drink himself into a continuing stupor as long as he does not physically harm another; to waste his waking hours reading cheap novels to the detriment of his business; to take a three-month vacation in Europe every year, if he spends his own savings, even though the manager appointed in his absence drives away customers in droves; to serve only red-headed people, if he wants to so limit his customers; to ignore, to insult, to serve poorly.

Each person has a right to make his own decisions about that which he owns, even though he may choose *un*wisely, *im*morally, and *un*economically. He may become rich or poor as a result of his decisions; but they are his to make, and his alone.

Church vs. Government

The purpose of the church is to help individuals make good, moral choices, to explain why it is better to choose good rather than evil. *But it is not the church's function to deprive the individual of his God-given right to choose!*

It is understandable why church leaders should be unhappy about persons who base decisions largely on race or color; this is a real challenge to the powers of persuasion of the leaders. However, theirs is the greater injustice to mankind if they then turn their persuasive powers upon legislators to enforce their will among men.

The proper purpose of a government is to protect the lives, the liberty, and the properties of all persons within its geographic boundaries. Each person should have such protection without regard to his occupation, wealth, popularity, race, religion, education, intelligence, age, or other peaceful mark of distinction. This is the meaning of equality before the law. An allied meaning in the spiritual area holds that each human soul is equally valued as important to God. It is erroneous to interpret this to mean that all souls are equal in consciousness and quality.

It is a fact not needing proof that men are created *un*equal. They differ physically, mentally, and spiritually. Yet, all are subject to the same natural laws of the universe. Whether white or black, rich or poor, old or young, a person who ignores the law of

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gravitation faces disaster at the bottom of a thousand-foot fall. This is the manner in which God's laws apply. No one is privileged by God to kill or steal.

Man-made laws should only implement God's laws within a framework of government acting as policeman and soldier to protect life and property against domestic or foreign aggressors. Government acts improperly when it goes beyond such implementation. Mankind underwent millennia of evolutionary change before it caught even a glimpse of this great truth. Only in recent centuries has mankind attempted societal arrangements based on the limitation of government. The results have been so rewarding – both materially and morally – that no one can successfully argue against the policy.

Areas of Governmental Intervention

If we will now examine the areas of greatest friction over the Negro problem, we find they are areas of government intervention. The infectious, rather than healing, agent is a government which neither confines its activities to police and military functions nor looks upon all citizens as equal before its laws. This government taxes black and white persons to build school facilities to be used often in disregard of equality before the law. But the basic question is: Where did the government get the power to educate? Surely, the police and military functions do not include the creative function of education. But the government schools have been among the most serious trouble spots in the racial issue. In the first place, government exceeds its limited police function when it assumes the role of educator. Then, it aggravates the error by failing to offer its educational services equally to all citizens.

The same error occurs when a city gives a municipal franchise (monopoly privilege) for the bus service within the city, whereupon the bus company then discriminates by skin color as to who shall ride where. In the first place, government's purpose is to protect the lives and properties of its citizens – not provide bus transportation. Having made that error, it then fails to offer equal service to all citizens.

Similar examples of overextended government include hospitals, city parks, city swimming pools, city golf courses – the list is long. When government is urged or allowed by citizens to make the first mistake, a plentiful crop of secondary mistakes is to be expected.

Let private, competing bus companies provide transportation ac-

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cording to rules and policies each chooses. Then each person may decide for himself which service to use, if any. Government's only interference would be as a policeman to protect the right of each bus company to establish its own rules. The speed of desegregation in such a free market situation would astound many proponents of force.

In 1948, the Cleveland Indians employed a Negro outfielder, Larry Doby. Since they were in the thick of the pennant race, I assume Doby was the best person they could hire to play centerfield. The team management could have elected to use a next-best player in this position, using color as the reason; but they *did not.* With Doby, they tied for the pennant and then won the play-off game. Surely, a second-best centerfielder would have meant the difference between victory and second place in such a close race, and the championship would have gone to another team. In that case, the Cleveland Indians and the city of Cleveland would not have reaped the economic benefits of a World Series played there. No one compelled the management to employ a Negro; no law required it. An evolving understanding among free men, and sound economics, brought this progress in race relations.

Instead of Voluntary Action, "Let's Pass a Law"

Is this the remedy now advocated by various church groups? No! They propose, instead, to *pass a law,* to substitute a federal policeman for the God-given right of each man to decide for himself about the use of his property. No one is to be allowed an error in his choice of fellow-worker, neighbor, schoolmate, customer – if the choice involves race. He is free to err in some respects, but not if the judgment involves a member of another race.

These church leaders have become so engrossed with racial equality that they overlook the kind of equality allied inseparably with freedom – equality before the law. When equality is so specialized as to preclude equality before the law, freedom is eroded dangerously. It would be the gravest tragedy to destroy by legislation the freedom of an individual to make his own decisions concerning the peaceful use of his own property. Many advocates of legislative reform contend that gradual integration through freedom of choice has had its chance for one hundred years and has failed; therefore, it is time to use the force of law. Whether or not freedom has failed – and there is much evidence that it has not – this same excuse has

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been used by totalitarian rulers since the dawn of history. Mere persons will not make wise or moral choices, each ruler asserts; therefore, the beneficent ruler must do this for them. The parade of pharaohs, kings, caesars, emperors, czars, kaisers, and dictators all had this in common: each justified his burdensome acts of authority against his subjects on the questionable premise that only he could reach right decisions. His subjects, according to him, left to their own whims and fancies, would only produce chaos. Diocletian would not permit the citizens of the Roman Empire to establish their own prices in the market place, and his laws contributed substantially to the downfall of the empire. Bismarck doubted that people would save for their later years, but his social system failed. Hitler's formula for German prosperity and world renown forced the German people into years of heartbreak and anguish.

Those today who believe that the force of government should replace freedom of choice in regard to race and color are dangerously toying with totalitarian methods.

The same freedom that affords men the opportunity to become rich also permits them to remain poor; to lead their lives at the highest moral level, or to live immorally and uselessly. Freedom to decide is the prime condition for the continued evolution of mankind. Other issues are, at best, of only secondary importance.

Spiritual and moral leaders should recognize that freedom to choose must remain inviolate — even though some persons then may choose to be immoral or unchristian. Let us pray that the zeal to remove evil does not overwhelm the God-given right of each man to choose for himself. ◈

TOPICS ON LIBERTY

Consistency

WHILE we assert our own liberty and our Christian rights, let us be consistent and uniform, and not attempt to encroach on the rights of others. . . . For nothing is more incongruous than for an advocate of liberty to tyrannize over his neighbors.

From a sermon celebrating repeal of
The Stamp Act, by JONATHAN MAYHEW, 1766

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"glitteringly unoriginal"

PEGGY BACON, who could draw wicked cartoons and supply them with wicked captions, once complained that Morris Ernst was "glitteringly unoriginal." This may have been unduly disrespectful to Mr. Ernst, but the phrase is almost completely descriptive of David T. Bazelon's *The Paper Economy* (Random House, $6.95), which comes to us with the misguided praise of Adolf Berle, Max Lerner, and Leon Keyserling plastered all over its back dust cover.

Mr. Bazelon, a lawyer, is, first of all, a strayed reveler from the period when many of us were sitting, quite foolishly, at the feet of such luminaries as Howard Scott, the high priest of technocracy, and Thorstein Veblen, who could curl a lip with the best of them but who mistook a brilliantly sustained sneer for a reasoned point of view. What troubles Mr. Bazelon is Veblen's old notion that capitalists have a vested interest in keeping the masses from buying things. We have heard this refrain from a thousand-and-one critics of capitalism: The price system is only compatible with "conscious" or "conscientious" withdrawal of efficiency. In this view of things, Standard Oil became wealthy by pouring its products down the kitchen drain, and Henry Ford never did lower the price of the Tin Lizzie. Moreover, Jim Walter had no idea that he might cut the cost of housing by selling "shell" homes, and the supermarket is still something for the far future, not something that exists in the present all over the United States and even in Venezuela and Peru. Just how crazy can you get in confusing contemporary reality with a completely nonapplicable abstraction?

The second thing to be noticed about Mr. Bazelon is that he is a master at manipulating sentences to produce a sustained tone poem. Every phrase in the book has a calculated veneered finish. The performance is pleasurable enough from a purely literary point of

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view. The tone poem is a veritable triumph of the pejorative mood. A price, to Mr. Bazelon, is never a price, it is always a "tax." A price – or a price-tax – is never charged, it is always "administered." A stock option is never a way of rewarding managerial skill, it is always a "paper graft." The U.S. continental domain is never developed, it is always "raped." Money is not a medium of exchange, or a store of value, it is always "paper," meaning that it doesn't matter whether it is German marks as of 1923, or checkbook figures representing the forty-eight-cent dollars of 1963. The pejorative tone poem is sustained for 467 pages. But what does all the brilliance come to?

A Paper Cure

Well, thereby hangs a tale, or should we say a tail (that of a very small mouse)? Since everything is "paper" to Mr. Bazelon, and "paper" is an illusion, he suggests that the way to cure our troubles is – to issue more paper. To make our system really workable, Mr. Bazelon thinks we should amend the Full Employment Act by making it illegal for any group of industrial managers to let productive capacity of any kind remain idle. The steel industry should be compelled to produce steel at top speed, and the federal government should stand ready at all times to buy up the steel surplus and stockpile it or force it down the throats of automobile or refrigerator or building material manufacturers. You and I would naturally pay for the stockpiling, presumably via additions to government budgetary deficits. But so what – the deficits would be only paper. And we'd owe the paper to ourselves.

This sort of thinking sounded rather profound to those who were deluded by Veblenism in the nineteen thirties. And when, back in those New Deal times, Mordecai Ezekiel suggested that the principle of support prices and government storage bins be extended from the wheat and cotton economy to the steel economy, there were those who applauded. But the Ezekiel Plan, when offered with a straight face in 1963, has a horribly dated sound.

Illegal?

Mr. Bazelon's verbal brilliance doesn't extend to understanding the dictionary. He speaks of the corporation as an "illegal" entity (see page 226, where he writes: "The corporation is a primary American illegal instrumentality, just as the political party is, and syndicate crime is.") Elsewhere he says the corporation is an "il-

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legitimate institution." But how can an entity be either "illegal" or "illegitimate" when it is expressly created by law? The corporation may not always have done things in ways that Mr. Bazelon would approve, but this has nothing to do with its legality as a sanctioned form of economic organization.

Jay Gould and Jim Fisk and other money-changers of their stripe may have tried to "rape" a continent, but Mr. Bazelon rapes both logic and the dictionary. The corporation, to him, is "private government." By this he means that it rules people by force without the sanction of the voters. In implying this he has raped the definitions of both "rule" and "force."

Can Mr. Bazelon's definition of the corporation be sustained by reference to any existing reality? Must a man work for U.S. Steel if he prefers to go elsewhere? Must a consumer buy a General Motors car if he has a yearning to possess a Volkswagen or a Mercedes Benz? If a person chooses to live in the United States and be a citizen thereof, he must obey the laws of the United States or else pay a fine or go to jail. But nobody is compelled to work for U.S. Steel or to use its steel products if he happens to prefer aluminum or wood or glass – or even steel purchased from Sweden or Luxemburg. The great beneficent fact of a corporation is that it doesn't have the legal power to compel anybody to do anything.

If Mr. Bazelon thinks a "price" is a "tax," meaning that it is something that is compulsorily enforced upon people, how does he explain the fact that General Motors was powerless a few years ago to keep the American Motors Company from producing a low-priced "compact" car? How does he explain the popularity of the imported Volkswagen? How does he account for the spread of the discount store? How does he explain a January White Sale? How does he account for the bazaar element that accompanies an automobile dealer's pattern of turn-in allowances on old cars? How does he explain any price break anywhere?

Ownership in Common

Mr. Bazelon's basic idea is that the distribution of plenty is impossible if we persist in respecting private property in "paper." The government must see to it that everybody has enough of everything no matter what it does to the rights of ownership. When I was young and foolish (and listening to Technocrat Howard Scott sound off at his table at Lee

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Chumley's Restaurant in Greenwich Village back in 1931), I could believe that distribution of purchasing power was a proper function of government. But I have lived to notice that governments, instead of insuring plenty when they intervene in the economic process, always accomplish the opposite. Inflation always destroys purchasing power. The Ezekiel Plan, applied to U.S. agriculture, has kept the price of bread high. In France, rent control has resulted in a chronic housing shortgage. In England, socialized medicine is depopulating the medical schools and driving older doctors into emigrating to Australia and Canada. In Russia, state planning keeps a hard goods consumer economy from coming into existence and inadvertently saddles the Russian countryside with a chronic slowdown in wheat and meat production.

Mr. Bazelon thinks that capitalism is supported by "myths" and "superstitions." Is it a "superstition" to expect a broker to deliver something he has promised to deliver? When a Harry Scherman writes a book called *The Promises Men Live By,* is he the victim of "mythology"? No, the truth is that capitalism is supported by performances that cannot be equaled by economies that are run on the gun standard instead of by the free contract standard.

Behind Mr. Bazelon's elaborate fun-making, there lurks the threat of the ugly mailed fist. Comes his revolution and nobody would be eating strawberries. Or anything else, for that matter, besides rationed bread. ◈

▸ AMERICA'S GREAT DEPRESSION by Murray N. Rothbard (Princeton, N. J.: D. Van Nostrand Company, 1963, 361 pp., $8.95).

Reviewed by Percy L. Greaves, Jr.

THE BASIC fallacy that underlies many of our modern economic maladies can unquestionably be traced to the old Marxian myth:

Free enterprise will not work. It contains the seeds of its own destruction. Every succeeding capitalistic crisis creates more economic chaos and more human suffering than the one before. Eventually, capitalism must collapse of its own weight and be replaced by the heavenly harmonies of socialism.

As proof, millions of Americans point to the Great Depression that began in 1929. We tried *laissez faire* capitalism in the twenties, they say, and it did not work. Left alone, capitalism crashed, bringing years of misery to millions.

Many of our contemporaries, opposed to Marxism, hold that

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only governmental action can save us from socialism and protect free enterprise from its inherent weaknesses. In their opinion, our economic salvation requires that government should restrain and regulate the excesses of uncontrolled capitalists, redistribute the cream of the capitalistically created wealth, and, whenever the pace of capitalism seems to slacken, then government should prime the pump of perpetual prosperity.

For a full generation, various versions of this basic fallacy have persuaded most Americans that depressions are the inevitable result of *laissez faire* capitalism. There have been countless books written on the depression. A few have made valuable contributions, but not one has pinpointed the part that politicians play in producing and prolonging depressions. Unfortunately, none of the existing books has been written by an economic historian who grasped the full significance of the "trade cycle" theory expounded by Ludwig von Mises.

Dr. Rothbard, a brilliant student of Mises, has that understanding. His is a great and much needed book. It may not be the perfect answer, but it certainly towers far above any other book on this most important subject. He may err on some fine points, but he certainly blasts the Marxist myth to smithereens. If this book is widely read and its relevance realized, we can all hope for a more realistic approach to our many economic problems.

When Government Interferes

Part I deals with the theory. Dr. Rothbard presents the positive Mises theory quite simply, perhaps too simply. He very aptly puts his finger on the fractional reserve defect in "the banking principle." He shows how a politically sponsored expansion of the supply of money-substitutes — bank deposits, and paper-backed paper money — misleads the thoughts and actions of free enterprisers. Under such conditions, businessmen, induced to borrow the newly created funds, act as though the additional supplies of money represent additional real savings available for starting ventures previously frustrated for lack of the needed capital.

This monetary expansion is produced by irresistible official pressures on banks to buy government paper and set artificially low interest rates on bank loans. The reduction in interest costs induces businessmen to borrow and start new enterprises, chiefly those that require a lot of capital for a long time. Ventures are started for which the available real savings are not sufficient at current prices.

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The capital goods industries then use their expanded funds to bid men and materials away from those industries most likely to prosper in a free market – those that best supply what consumers most want. The boom is on. The malinvestment multiplies as wage rates and prices rise above what they would be, if the money supply had not been artificially expanded.

Such politically inspired booms cannot continue forever. When the bubble bursts, society must recognize the insufficiency of real savings for the grandiose plans started with false hopes. Business must readjust. Men and materials must be shifted from making goods for which consumers will not repay costs to those producing what consumers can and will buy at prices that cover current costs.

At this point, the ideal solution is for government to let market forces direct the correction. Free and flexible prices, wage rates, and interest rates will quickly redirect the economy with the least unemployment, the least loss of capital, and a minimum of human misery. Every government interference with the market indicators misdirects men and materials and thus unnecessarily deepens the distress and lengthens the period of readjustment.

In Part II, Dr. Rothbard reveals how the upward political manipulation of the supply of money-substitutes, *not free enterprise*, created the inflationary boom of the twenties and made the depression inevitable. He touches on the dilemma of government officials in 1928 and early 1929. Arguing and groping behind closed doors, they sought in vain for some easy way to stop the stock market boom without also stopping the highly artificial spiral of business and agricultural activity that they had instigated with their well-meaning expansion of the supply of money-substitutes.

The "New Deal" Before 1933

Part III is entitled, "The Great Depression: 1929-1933." Here, Dr. Rothbard is at his best. He presents a masterly account of the development of the depression policies of the Hoover Administration. He shows how wrong they were and how such political interventions made matters far, far worse. He also depicts the role of business leaders and respected economists in the parade toward more and more bureaucratic interference with the self-correcting tendencies of *laissez faire* capitalism. He pulls no punches to prove his point, which is:

"The guilt for the Great Depression must, at long last, be lifted from the shoulders of the

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free market economy, and placed where it properly belongs: at the doors of politicians, bureaucrats, and the mass of 'enlightened' economists. And in any other depression, past or future, the story will be the same."

While this reviewer, a longtime student of depressions and of Professor Mises, learned much from this book and recommends it highly, he cannot agree with all its premises. Perhaps the most serious objection is to Dr. Rothbard's predilection for deflation as an antidote for prior politically created inflation. As Mises has pointed out, this is a little like helping a man who has been run over by backing the car over him again. A second injury in reverse does not erase the first injury.

The best solution for such a situation is to stop immediately all political manipulation of the money supply, that is, prevent any further politically induced inflation or deflation. Mises has described the process in the "Monetary Reconstruction" chapters of his *Theory of Money and Credit*. Such a solution would interfere least with existing contracts and help reduce the required readjustment to the very minimum.

The Money Supply

This reviewer cannot agree that life insurance net policy reserves are part of the money supply. In fact, they are not even the cash surrender sums, which Dr. Rothbard considers money because they are obtainable on demand. Actually, such cash surrenders entail a loss of insurance coverage and often a loss of interest. Demanding gold for your paper money or bank checks involves no such loss. Life insurance policies are no more money substitutes than any other forms of easily cashable wealth.

Considering such claims as money also tends to weaken the major thesis of the book. The basic cause of depressions is the creation of several titles to the same sum of money, producing an illusion that permits several people to act as though the same bank reserves belonged to each of them at the same time. Such multiple titles to the same money are only possible within a banking system operating with a fractional reserve. A dollar of reserves can thus be pyramided into many dollars of spendable money substitutes. The illusion of more dollars can continue only so long as depositors manage their finances by check and refrain from asking for metallic money.

Neither life insurance companies, nor savings banks, nor savings and loan institutions can give two or more titles to the same

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reserves. The inclusion of such assets in the money supply hides the actual deflation of 1930 and thus obscures this conformity with the Mises theory. It also weakens and complicates other parts of an otherwise excellent historical analysis.

Dr. Rothbard knows well that the GNP, generally known as the Gross National Product, might better be called the Great National Panegyric for inflation. Yet he tries to correct GNP by using official statistics to recalculate changes in the right direction. This reviewer must hold that such politically created guestimates are beyond salvage. They should be provided a prompt burial where they can no longer mislead an innocent and unsuspecting public.

There are other minor flaws, but it is a great book. Written more for economists and students of affairs than for the general reader, it merits reading by all who seek a better understanding of the dangers of a politically run economy. ◈

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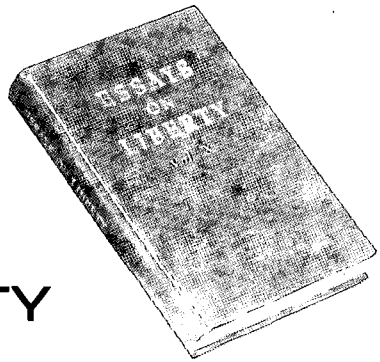

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